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California dreamland
Spielberg and pals put dreams to work
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Playing the curve
Can bond yields fall even more?
Philip Coggan, Page 15

Sweden
More battles lie ahead
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Weekend FT
France: a state of anguish

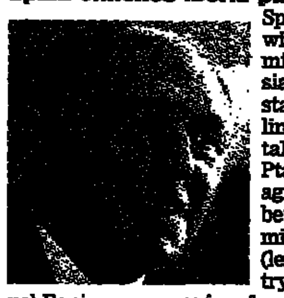
World Business Newspaper — FRIDAY DECEMBER 15 1995

Nokia warning on profits hits mobile phone shares

Shares in mobile telephone companies fell sharply when Finnish group Nokia, a leader of the hitherto high-flying sector, warned of a fall in profits in the final four months of the year. The announcement re-ignited fears that the spectacular rates of growth in demand for mobile telephones over the past three years were cooling off, especially in the US, the world's biggest mobile phone market. Page 15; Lex, Page 14; Phone number ruling boost for UK telecoms competition, Page 8

US seeks to arrange peace deal: The US launched an ambitious bid to put together a peace deal between Israel and Syria as US secretary of state Warren Christopher arrived in Damascus to meet President Hafez al-Assad. Page 14

Spain clinches Iberia plan with Brussels:



Spain reached agreement with the European Commission on a controversial rescue plan for the state-owned Iberia airline, allowing for a capital injection of up to Pta107bn ($870m). The agreement, sealed between transport commissioner Neil Kinnock (left) and Spanish industry minister Juan Manuel Eguiagaray, requires formal Commission approval, which is not expected until next month. Page 14

EBS and Minex agree merger: EBS and Minex, two of the three leading international providers of electronic foreign exchange broking systems, agreed to merge their operations in a move intended to strengthen their position against Reuters. Page 15; Brokers lose voices on the small screen, Page 20

US rates cut thought likely: Reports of flat US consumer prices and a modest rebound in industrial production raised expectations for an early cut in US interest rates. Page 5

Asean endorses expansion move: Leaders of the seven countries in the Association of South-east Asian Nations unanimously endorsed expanding the organisation's membership to include Burma, Cambodia and Laos. Page 14

Banamex sells loans: Banamex, Mexico's leading commercial bank, sold 15bn pesos ($2m) of its non-performing loans to the government, in the strongest indication yet of the damage Mexico's recession and financial turmoil have wrought on the banking system. Page 15

Vereinsbank drops Oppenheimer purchase: Munich-based Bayerische Vereinsbank abandoned its attempt to buy Oppenheimer Group, the US securities firm, because US banking regulators would not approve the deal quickly. Page 18

China hits back at US over dissident: China bitterly condemned the US for "unwarranted interference" following US criticism of the jailing of prominent dissident Wei Jingsheng. Page 6

Australia and HK settle flights row: An eight-month aviation row between Australia and Hong Kong was settled with an agreement allowing Australian carrier Qantas to pick up passengers in Hong Kong and fly them to Singapore and Bangkok. Page 4

Tokyo set to agree tax reforms: Japan's three-party coalition was poised to agree a package of tax reform measures intended to support the country's fragile economic recovery. Page 6

$1.5bn chip plant for east Germany: US semiconductor company Advanced Micro Devices said it would invest DM2.1bn ($1.5bn) in a semiconductor plant in Saxony, the east German state which has been most successful in attracting investments since German reunification. Page 4; Siemens' UK plant marks expansive ideas, Page 8

Canberra and Jakarta in security pact: Australia and Indonesia are to sign a security alliance on Monday, committing the two governments to regular consultations and, when appropriate, concerted action on defence matters. Page 6

UK may bring 'mad cow' prosecutions: The UK government may prosecute three slaughterhouses which failed to remove the spinal cord from beef carcasses under regulations to control the spread of "mad cow" disease. Page 8

England take early lead: England took early control in the third cricket test against South Africa in Durban, reducing the home side to 139-5 before bad light ended the first day's play early.

■ STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	5,207.44	(-9.03)
NASDAQ Composite	1,043.48	(-13.14)
Europe and Far East		
CAC40	1,874.98	(+41.22)
DAX	2,285.85	(+8.05)
FT-SE 100	3,671.6	(+9.2)
Nikkei	19,489.30	(+215.82)

■ US LUNCHTIME RATES

Federal Funds	5 11/16%
3-mth Treas Bills: Yld	5.380%
Long Bond	111
Yield	6.066%

■ OTHER RATES

UK: 3-mo Interbank	6½%	(6 15/32%)
UK: 10 yr Gilt	107¾	(107½)
France: 10 yr OAT	107.06	(106.34)
Germany: 10 yr Bund	103.29	(102.97)
Japan: 10 yr JGB	113.929	(113.852)

■ NORTH SEA OIL (Argus)

Brent 15-day (Feb)	$17.37	(17.81)

■ GOLD

New York: Comex		
(Feb)	$387.3	(387.9)
London:		
close	$386.15	(387.75)

■ DOLLAR

New York: lunchtime		
£	1.5425	
DM	1.43955	
FFr	4.9488	
SFr	1.1638	
Y	101.45	
London:		
£	1.5392	(1.5325)
DM	1.4418	(1.4499)
FFr	4.9725	(5.023)
SFr	1.1867	(1.1773)
Y	101.485	(101.675)

■ STERLING

DM	2.2181	(2.2219)
Tokyo $ close:	Y 101.865	

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$20	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft215	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lv110.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	Sk60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	Kc55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta250
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y600	Philippines	Pes50	Switz	SFr3.60
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 4.20	Syria	S£50.00
Finland	FM15	Kuwait	Fils625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr11.00	Lebanon	US$1.50			Turkey	L80,000
Germany	DM3.80	Lux	LFr70			UAE	Dh12.00

Move to revive economy followed by central banks throughout Europe

Bundesbank cuts interest rates

By Andrew Fisher in Frankfurt

The Bundesbank yesterday cut German short-term interest rates for the third time this year in an attempt to revive a stalled economy. Its move prompted a wave of similar cuts by other European central banks.

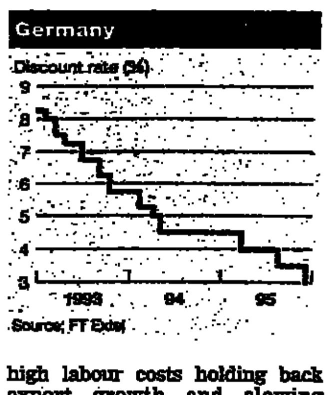
The Bundesbank's half a percentage point cut in the discount and Lombard rates, to 3 per cent and 5 per cent respectively, brought them to their lowest levels since July 1988.

Interest rates were also cut in Switzerland, Belgium, the Netherlands, Austria, Denmark and the Irish Republic. The cuts, which came a day after UK base interest rates were reduced, were closely co-ordinated. Most central banks cited currency movements and falling interest rates as the reason.

Mr Eddie George, governor of the Bank of England, indicated that the fall in UK interest rates was part of the co-ordinated action. "We anticipated the Bundesbank move. We had lots of conversations with them," he said.

Currency market response was fairly limited; the Bundesbank's move had been widely discounted, although many economists had felt it might delay until early next year. The D-Mark finished in Europe slightly firmer against the dollar at DM1.4418, from DM1.4485.

The Federation of German Industry welcomed the rate moves, saying they "broke the chain of negative announcements" on the economy. There has been growing evidence that the German economy is weakening, with the strong D-Mark and



high labour costs holding back export growth and slowing investment.

However, Mr Hans Tietmeyer, president of the Bundesbank, said yesterday there was "no threat of recession". The reduction in interest rates should not be seen as a confirmation of pessimism about the economy and did not mean the Bundesbank was following anti-cyclical policies, he added.

The Bundesbank, which also fixed the rate for the next three securities repurchase (repo) deals with commercial banks at 3.75 per cent compared with the current 3.98 per cent, linked the rate cuts with its setting of a new money supply goal for 1996. The target growth range for the M3 monetary aggregate has been fixed at 4-7 per cent, slightly higher than the 4-6 per cent for this year.

But M3 has expanded at well below the target range, with an annualised rate of 1.7 per cent in October and November. Mr Tietmeyer said the cut in rates would help ensure M3 again grew at a rate consistent with potential economic growth.

The Swiss National Bank was the first to act in the early afternoon, lowering its discount rate to 1.5 per cent from 2 per cent, some 10 minutes earlier than the Bundesbank.

The Austrian National Bank cut its discount rate to 3 per cent from 3.5 and the Belgian National Bank cut its discount rate to 3 per cent from 3.5 per cent.

The Dutch central bank lowered its official rate on advances to 2.75 per cent from 3.25 per cent, while the Danish National Bank cut its discount rate to 4.25 per cent from 4.75 per cent. The Irish Central Bank reduced its short-term facility rate to 6.5 per cent from 7 per cent.

M3 prompted rate cut, Page 2
Editorial Comment, Page 13
Lex, Page 14
Currencies, Page 23

NBC and Microsoft to launch all-news TV service

By Christopher Parkes in Los Angeles

NBC, the top US television network, yesterday joined the scramble into 24-hour news programming with a deal granting Microsoft equal rights in a revamped cable channel and a new interactive online service.

Microsoft, the world's leading software group, had previously planned to set up its own news-gathering operation. It will pay the General Electric subsidiary $220m over five years for a 50 per cent stake in the cable channel.

The service will be launched late next year, under the title MSNBC Cable News, and will be based on NBC's current talk channel, America's Talking, which now reaches about 15m households.

The new partners also said they planned to invest about $200m each on developing the cable and online services over the next five years. Online news and back-up data will be provided by NBC's existing sources.

The much-leaked news was greeted calmly in Wall Street, where analysts agreed there would be no short-term effects on the groups' profits. Long-term prospects were also clouded by uncertainty over the revenue-raising abilities of news programming and online services.

The future is made more uncertain by the danger of oversupply. Yesterday's announcement followed soon after a statement from ABC, part of the Disney group, that it would start an all-news channel in early 1997.

News Corporation, controlled by Mr Rupert Murdoch, earlier said it also planned a news-only service to compete with the current pre-eminent provider, Cable News Network.

Mr Bill Gates, head of Microsoft, started negotiations with NBC about two months ago after his overtures to CNN were rebuffed because of the network's impending merger with Time Warner.

Mr Gates said the deal had gone ahead even though he did not expect to see any profits for five or six years. He said interactive services – allowing viewers to choose what they wanted to see or study in more depth – would make news far more attractive.

NBC said the intention was not to imitate CNN, but to provide a new selection of services by bundling together broadcasting, cable and direct online connections to desktop computers.

Lex, Page 14

Serbian president Slobodan Milosevic (left) and his Croatian counterpart Franjo Tudjman seal the Bosnian peace agreement with a handshake as Bosnian president Alija Izetbegovic looks on (right) after the accord was signed at the Elysée Palace in Paris. US and French presidents Bill Clinton (back left) and Jacques Chirac, and German chancellor Helmut Kohl (right) applaud the deal which ends a bitter civil war Picture: Reuter

Bosnia peace deal is signed in Paris

By Laura Silber in Paris, Harriet Martin in Sarajevo and Jurek Martin in Washington

The presidents of Serbia, Bosnia-Hercegovina and Croatia yesterday signed a comprehensive peace treaty in Paris aimed at halting Europe's worst conflict since the second world war.

But shortly after the signing ceremony at the Elysée Palace, there was a reminder of the difficulties in the way of implementing the agreement when Bosnia's mainly Moslem government said Serb forces had fired four shells into Sarajevo. No one was hurt.

In signing the treaty, Mr Slobodan Milosevic of Serbia, Mr Alija Izetbegovic of Bosnia-Hercegovina and Mr Franjo Tudjman of Croatia agreed to end a war which had lasted more than three and a half years, and had left 200,000 dead or missing and 2m homeless.

US president Bill Clinton, his French counterpart, Mr Jacques Chirac, and other leaders also signed the agreement. Mr Clinton urged the three Balkan leaders to "seize the chance and make peace work" while Mr Chirac urged them to "turn the page on war and hatred and write the chapter of peace".

Mr Clinton, who has committed 20,000 ground troops to the 60,000-strong Nato peace implementation force, flew into Paris yesterday after winning basic congressional approval of a US military presence in Bosnia, though the message from Capitol Hill hardly constituted a ringing endorsement of his policies.

The Senate backed by 69 to 30 the Nato mission on condition that the US took the lead in re-arming the Bosnian military. It rejected by 52 to 47 a motion opposing the mission but supporting the troops and, by 77-22, a proposal to cut off all funding for the venture.

The House of Representatives first voted to deny all funding but after the decisive Senate division reversed itself with a vote of 218-210. It then approved the troop support amendment by 287-141.

On his way to Paris, Mr Clinton unveiled an $85.6m package of immediate humanitarian, economic and reconstruction aid to Bosnia and pledged to ask Congress for an additional $600m in aid over the next few years.

The peace agreement, initialled on November 21 in Dayton, Ohio, provides for a single Bosnia-Hercegovina state with two separate entities. Roughly half the territory will be controlled by a Moslem-Croat federation and the other half by the Serbs, although each of the country's three ethnic groups will keep its army.

It also provided for mutual recognition by Bosnia-Hercegovina and the rump Yugoslavia consisting of Serbia and Montenegro. But an intensive effort by Mr Richard Holbrooke, US assistant secretary of state and chief negotiator, to persuade Croatia and Yugoslavia to grant each other recognition failed.

A senior US official warned yesterday that Belgrade's full rehabilitation hinged on implementation of the Dayton agreement, including co-operation with the international tribunal on war crimes and allowing refugees to return home.

Belgacom stake for US-led telecoms grouping

By Emma Tucker in Brussels and Nicholas Denton in London

A US-led consortium yesterday won a 49.9 per cent stake in Belgacom, Belgium's state-run telecommunications company and one of Europe's most inefficient telecom operators.

Belgacom is the first national operator to give up its independence in the run-up to the full liberalisation of the European Union's telecoms sector in 1998.

The deal is likely to foreshadow similar acquisitions across Europe as companies and governments jostle for market position. A tender for a stake in Telecom Eireann, Ireland's national telecoms operator, is set to be announced next week.

The consortium, which is headed by Ameritech and includes Tele Danmark and Singapore Telekom, saw off a rival bid from KPN, the Dutch telecoms giant, and Swiss Telecom. It bid BFr73.3bn ($2.571bn), while the Dutch-Swiss consortium, which was advised by Goldman Sachs, offered less than $2bn.

Although it has won itself a plum European location, home to many multinational headquarters, the Ameritech consortium – advised by Lehman Brothers and J.P. Morgan – now has to tackle the delicate task of restructuring Belgacom.

It faces the challenge at a time of public disquiet in Belgium over government privatisation plans. On Wednesday, public sector unions mounted widespread demonstrations in protest at government austerity cuts.

Belgium's centre-left government is under intense pressure to reduce its colossal deficit so that it can qualify for European monetary union in 1999.

Yesterday, Mr Elio Di Rupo, the Belgian communications minister, said conditions for Belgacom's 26,000 employees – employed on terms similar to those of civil servants – would not be altered and that the winning consortium had not asked for the right to make widespread redundancies.

New employees will be subject to new contracts and Mr Di Rupo

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NEWS: EUROPE

Financial Times writers on the European Union summit meeting which begins in Madrid today

Leaders hope to agree on 'Euro' currency

By Lionel Barber

EU leaders hope to reach agreement on a blueprint for the introduction of a single currency, most likely to be christened the Euro, on January 1 1999.

The plan for monetary union is the centrepiece of a two-day summit in Madrid which will include potentially divisive discussions on enlargement and reform of EU institutions.

The summit takes place against a backdrop of strikes in France, concern about European economic slowdown, and heavy Spanish security. More than 6,000 police and paramilitary Civil Guard were patrolling the streets and the perimeter of the futuristic summit centre yesterday.

But spirits rose after the Bundesbank trimmed Lombard and discount rates yesterday. Spanish officials hosting the summit also expressed jubilation after news of approval in Brussels of a bail-out of Iberia, the state airline.

EU leaders intend at the summit to ignore doubts in the financial markets and reaffirm their political commitment to Emu by approving a technical plan which largely accommodates German demands.

France and Germany have removed one of the final obstacles to the 1999 timetable, agreeing that the choice of Emu participants will be made as early as possible in 1998. But Germany is reluctant to commit to switching over new public debt issued after 1999 to the new Euro currency.

The compromise on the calendar takes note of French requests that the decision should be made ahead of the March 1998 parliamentary elections, but meets Germany's insistence that the choice is based on actual economic performance rather than forecasts or quarterly results in 1997.

On enlargement, Germany is pressing its EU partners to promise the Czech Republic, Hungary and Poland they will be in the first wave of the next round of countries joining the EU around 2000.

Chancellor Helmut Kohl is adamant that the EU's first political priority must be to stabilise Germany's eastern border, notably with Poland. He would like to open accession negotiations with the three central European countries about six months after the end of next year's intergovernmental conference, matching an earlier pledge given to Cyprus and Malta.

Mr Felipe González, the veteran Spanish prime minister, has counter-proposed opening negotiations with all countries that meet the criteria for membership in terms of human rights, democracy and a market economy, following scrutiny by the Commission.

Despite German pressure, most countries seem unwilling to single out countries as favourites for entry at this stage – though there is broad agreement that Germany's choice is the most realistic.

EU leaders have invited the nine central and eastern European leaders as well as Cyprus and Malta to lunch tomorrow.

Union struggles to regain its sense of direction

By Lionel Barber in Madrid

There are two agendas at today's European summit in Madrid, one familiar and one hidden.

The first topic is employment, competitiveness and growth. Since 1993, the European Union has shown a small net loss in jobs, while the US has created 6.7m. With 17m of their citizens out of work, EU leaders will be desperately keen to offer some prospect of better times ahead.

The second agenda is more abstract. It comes down to one big question: how to reconcile the panoply of promises the EU has made regarding eastern enlargement, the planned launch of the single currency in 1999, and institutional reform at next year's inter-governmental conference.

Senior Brussels diplomats are already talking about "the crisis scenario", a nightmare sequence of events in which either the IGC ends in deadlock, the European monetary union timetable is derailed, or member states become paralysed by arguments over the terms for admitting the former communist countries of central and eastern Europe.

The atmosphere of uncertainty has grown in the past fortnight as French trade unions have taken to the streets in protest against the Gaullist-led government's programme for reforming the welfare state and making the deep cuts in public spending necessary to meet the Maastricht treaty's criteria for Emu. Without France, Emu will not go ahead – a fact recognised in Bonn as much as Paris.

The Madrid summit will almost certainly be the last for Mr Felipe González, Spanish prime minister and host. After 13 years in power and with his Socialist party looking doubtful for next March's election, he is determined to whittle down the summit to manageable proportions and convince the sceptics that the Union has regained a sense of direction. Can he succeed?

The prospects appear brightest for monetary union. France and Germany have largely resolved their difficulties over the technical aspects of the introduction of the single European currency, the so-called reference scenario.

In line with German demands, the political decision on which countries meet the Emu criteria will be taken on real economic performance rather than forecasts or quarterly figures. This implies that EU heads of government will make their choice at a summit in early 1998, most likely in late January or February. This would lift uncertainty ahead of the French parliamentary elections in March, a big concern of the Paris government.

More symbolically, it seems certain that EU leaders will select the "Euro" as the name of the new single currency. French President Jacques Chirac had doubts about abandoning "Ecu", the name mentioned in the Maastricht treaty.

Spanish police on patrol outside the hall housing the summit AP

But once again, Germany has dictated the terms.

The Bundesbank and the German finance ministry have argued that the German public would never accept the Ecu because it has the same name as the basket of EU currencies which has steadily lost its value against the D-Mark. Mr Theo Waigel, finance minister, also believes the "Euro" could serve, too, as a pre-fix for national currencies – Euro-Mark, Euro-franc, Euro-pound.

Such remarks suggest that the Germans remain as ambivalent as ever about exchanging the D-Mark for the new Euro currency. But both Chancellor Helmut Kohl and Mr Waigel insist that their political commitment to Emu is unwavering.

Their concern is to ensure that the economic criteria for entry in the single currency remain rock-solid so that the Emu club, at least in its initial formation, is confined to super-strong economies.

Enter Mr John Major, British prime minister. He is the self-appointed champion of those countries such as Italy and Spain which are unlikely to qualify for Emu in 1999. In Madrid, Mr Major will repeat his call for an in-depth study of the relationship between the "ins" and the "outs". He believes that Emu is an irreversible historic step but is also potentially deeply divisive.

Several leaders may share sympathy with Mr Major's arguments, but the majority are likely to be suspicious about his motives for raising the issue at this stage. After all, he won an opt-out from Emu in the Maastricht treaty, and has stayed on the fence ever since. Now he is under pressure from Conservative party Eurosceptics to rule out participation in the single currency for the life-time of the next Parliament. "Major is just trying to delay Emu," concludes one senior EU diplomat.

The second British concern is that a small, tight-knit Emu could prefigure other exclusive institutional arrangements dominated by France and Germany, at the expense of UK interests. These British fears may be exaggerated; but the tenor of last week's Franco-German summit in Baden-Baden suggested that, whatever else their differences ahead of the IGC, the two allies are determined that the pace of future integration in Europe should not be dictated by the slowest or most unwilling member of the club.

Mr González will not stir this debate in Madrid, preferring to wait for the launch of negotiations at next year's IGC, most likely at a ceremonial summit in Turin at the end of March. His eye is on enlargement to eastern Europe which poses formidable political, economic and cultural problems for the Union.

The issues go far deeper than institutional tinkering such as more majority voting or re-arranging voting weights between small and large member states. Enlargement implies radical changes in the EU's two traditional policies – the Common Agricultural Policy and EU regional aid. Both enjoy the support of powerful vested interests such as the farming lobby; but they also underpin solidarity between north and south.

Mr González has stated flatly that enlargement will never take place on the back of European farmers; but he is keen to offer a credible prospect of membership to "tranquillise" the central and Europeans. His idea is to offer all applicants from the former Soviet bloc a starting date for accession negotiations six months after the conclusion of the IGC, the same terms which are already available to Cyprus and Malta.

Others remain wary of opening the door to all-comers, with Germany leaning apparently more toward confining initial enlargement to those countries on its eastern border: Poland and the Czech republic, supplemented by Hungary and possibly Slovenia. This politically driven membership would be accompanied by lengthy transition periods for policies such as the CAP, minimising internal friction within the EU.

Nordic countries argue that this looks like "clientism" which would draw new lines across the continent, pushing candidate countries such as the Baltic states back into Russia's orbit. Their aim is to press for objective entry criteria, supplemented by more ambitious reform of expensive EU policies.

Madrid will not settle these fundamental questions, but it will be an important dress rehearsal for a debate which will sink or shape the EU as it prepares for the 21st century.

So much paper, so little time

By Lionel Barber

EU leaders arriving in Madrid today for their two-day summit will be buried under an avalanche of paper.

No fewer than 18 separate reports running to several hundred pages on issues including employment, enlargement, fraud, monetary union, and subsidiarity are on the summit agenda. In many cases, the reports have arrived too late to be read by ministers.

Even if EU leaders dodge the paper blizzard, they will be trapped by the protocol. This morning, the president of the European Parliament will give his customary speech. Lunch follows with leaders and foreign ministers of the Latin American Mercosur group and King Juan Carlos of Spain. Tomorrow, leaders from nine eastern European countries, as well as Cyprus and Malta, will turn up for lunch to press their case for early EU membership.

Somewhere in between, the 15 EU leaders and the president of the European Commission must find time for a serious exchange about monetary union, next year's intergovernmental conference to review Maastricht, enlargement to eastern Europe, the parliamentary elections in Russia, Bosnian reconstruction, and the Middle East.

The Spanish presidency is not entirely responsible for generating the summit paperload. Greece pushed the idea of a high-level "reflection group" to study options for change at the IGC, with mixed results. French President Jacques Chirac over-ordered reports on his summit debut in Cannes last June. The British often delight in encouraging the European Commission to produce reports because, as one official admitted, "it stops them from doing mischief elsewhere".

Some reports are better than others, say EU diplomats. The Ciampi group's paper on competitiveness is a model of clarity, while the finance ministers' report on the technical aspects of the switch to the single currency – drawn heavily from work by the European Monetary Institute and the Commission – is a vital basis for discussion.

In one respect, the supercharged Madrid summit reflects the EU's growing importance as an international actor. As its membership has expanded, so has its capacity to throw a big party. President Boris Yeltsin of Russia beat a path to the Corfu summit last year, the central Europeans are by now regular guests. Now Mrs Tansu Çiller, Turkish prime minister, has received a last-minute invitation.

But some senior diplomats in Brussels fear that the expansion of the EU's responsibilities and interests around the globe has come at a price. The EU is losing its ability to manage its own business effectively. This is true of EU summits, but it is even truer of the monthly meetings of EU foreign affairs ministers.

Last April, Mr Alain Juppé, then French foreign minister, held four news conferences in one afternoon to give visiting ministers from outside the EU their 15 minutes' worth of TV camera time. In October, the foreign ministers' session was interrupted three times for signing ceremonies between the EU and Russia, Tunisia and Vietnam. Afterwards a forlorn Vietnamese minister had to be rescued by Mr Jacques Santer, Commission president, who took pity on him and invited him over for lunch.

What is to be done? A member of the Reflection Group says reform is vital if an enlarged Union is to work effectively.

One idea would be to curtail the tradition of the *table ronde*, whereby each member state has the right to intervene in a Council meeting. This would save the most precious diplomatic commodity: time.

A second reform would be to introduce clearer external policy priorities. The Commission has begun this process, particularly in relation to Asia; but the development of a foreign policy doctrine is hampered by competing Commission baronies and the lack of an integrated policy-making apparatus shared by the Commission, bureaucracy and the Council secretariat.

One idea gaining ground is to create a separate Brussels-based planning cell to lay the groundwork for a common EU foreign policy. The unit could be supplemented with a Mr or Madame X, a new "face" and "voice" to articulate EU foreign policy to the public and to deal with the numerous high-level visitors coming to Brussels and summits.

The difficulty is that it could develop into a rival power-centre to the Commission – or yet another Brussels-based institution churning out papers which hardly anyone has time to read.

Decisions likely to emerge from the pile of paper

Monetary union
Agreement on a plan for the phased introduction of the single European currency between 1999 and 2002 and on its name, most likely the Euro.

Enlargement
A hardening of the commitment to extend EU membership to candidates from central and eastern Europe in parallel with Malta and Cyprus.

Employment
Adoption of several reports which call for more support for small businesses and measures to improve European competitiveness, with the focus on action by member states rather than Brussels.

Inter-governmental conference (IGC)
Leaders will note the Westendorp group's options for institutional change and agree to launch the conference under the Italian presidency, most likely in late March next year.

Relations with Mercosur
Leaders will sign a framework agreement for closer co-operation with Argentina, Brazil, Paraguay and Uruguay which holds out the prospect of free trade.

Mitteleuropa's leaders look to EU for security

By Anthony Robinson, East Europe Editor

Hitler filled the power vacuum after the collapse of the Hapsburg, Ottoman and Romanov empires – and Stalin filled the vacuum left by the defeat of Hitler. The losers on both occasions were the small and medium-sized nations wedged between Germany and Russia whose present leaders are coming to Madrid to press for entry into an enlarged Europe as soon as possible.

From the Baltic to the Black Sea the aspirant joiners are primarily looking not for handouts but for security. "We want to join the EU for precisely the same reason that the original six members set up the iron and steel community – to prevent another war," says Mr Jacek Saryusz-Wolski, Poland's chief EU negotiator.

His blunt words, echoed in other capitals, reflect concern that prosperous west Europe, by concentrating on the economic costs and political complexity of enlargement, fails to recognise both the region's fear of languishing in a post-Soviet limbo and the economic advantages of including new markets and low-cost producers in a wider Europe.

But Germany, which is East Europe's most important market, is also particularly attuned to Russian sensibilities. It insists on a staggered timetable.

This week Chancellor Helmut Kohl proposed starting with Germany's immediate neighbours Poland, the Czech Republic and Hungary, all dynastically part of "Mitteleuropa" before 1918 and pace-makers for economic and institutional reforms since 1989.

The German short-list is bound to foment argument. The favoured troika are quietly pleased to be at the head of the queue. But the exclusion of Slovenia, in dispute with Italy, and Slovakia, under the maverick political leadership of Mr Vladimir Meciar, will anger the two former Hapsburg lands. The Baltic and Balkan states in effect relegated to the outer circle will renew their demand that, at the very least, EU leaders should offer them a timetable for eventual negotiations and step up infrastructural modernisation and other assistance in the meantime.

Even the hitherto vague prospect of eventual EU membership for the former socialist countries has already provided a powerful incentive to re-model laws, regulations and institutions in an EU-compatible fashion. Mr Janos Martonyi, a partner in the Budapest office of the international law firm Baker, McKenzie, says: "The harmonisation of our legislation with the EU has helped deregulate the old socialist state and introduce new EU-compatible legislation in hitherto blank areas, such as company and banking law."

The prospect of eventual entry has already underpinned economic reforms on a scale, and at a social cost, unthinkable for western Europe. "We are much poorer than western Europe. But we ask the EU to look at our health not our wealth," says Mr Saryusz-Wolski. Poland, the Czech Republic, which has just joined the OECD, and Slovenia already perform better in terms of the Maastricht "convergence criteria" than several existing members, including Italy, Belgium and Greece, except for inflation. But until now, Mr Saryusz-Wolski complains, "We have been offered no dates for entry and the route map drawn up by the Essen EU summit has no clear road signs, no bus stops and no traffic code."

The frustration is even more palpable further east, where Bulgaria and Romania fear that the EU's flawed involvement in former Yugoslavia and unsatisfactory experience with Greece has inculcated a generalised reluctance to get further involved in the wider Balkan area.

Romania has already applied and Bulgaria will formally present its application for EU membership at the Madrid summit. Both will argue that enlarging the EU to the shores of the Black Sea will enhance the security of a continent likely to receive increasing volumes of oil and gas from central Asia across the Black Sea in the 21st century.

Mr George Pirinski, the Bulgarian foreign minister, says: "Since the fall of communism we've held three parliamentary and one presidential election, adopted a new constitution, eased ethnic tensions and embarked on market reforms while improving relations neighbouring Greece, Turkey, Macedonia and Albania." Extending EU membership to the Black Sea, he adds, would help Europe project its security beyond its borders into the Middle East and North Africa.

French rail strike weakens

French union leaders yesterday failed to press the prime minister, Mr Alain Juppé, into immediate talks, as the rail strike at the heart of the anti-government protest movement showed its first signs of crumbling, David Buchan and Andrew Jack report from Paris.

Workers at a third of the country's rail depots, mainly in the north and east, voted to return to work, enabling a few regional trains to run today the SNCF rail company said yesterday.

In Paris, a few buses returned to service and one of the capital's 13 metro lines briefly re-opened for the first time in nearly three weeks.

SNCF said the proportion of its employees on strike fell yesterday to 39 per cent from 46 per cent the day before, but the national rail system remained idle. Foreign leaders had to be helicoptered into Paris for yesterday's signing of the Elysée peace treaty on Bosnia and, once inside the capital, were ferried around in a coach, except for US President Bill Clinton who rode in his armoured limousine.

As well as promising fresh talks on a plan to streamline SNCF and scrap pension reform for railwaymen and other state employees, Mr Juppé earlier this week invited union and business leaders to a "social summit" on December 21 to discuss employment issues.

The top two strike leaders, Mr Marc Blondel of the independent Force Ouvrière and Mr Louis Viannet of the communist-led CGT federation, said they wanted this meeting brought forward and broadened to discuss Mr Juppé's remaining welfare proposals and their impact on pay and consumption.

"Does Mr Juppé want the strikes and the protest movement to last until the 21st?" asked Mr Blondel at a press conference.

The government believes the broader protest movement will exhaust itself by next Thursday, weakening union leaders' leverage on Mr Juppé to turn the "summit" into a renegotiation of his welfare reforms.

The unions have called for demonstrations tomorrow which the pro-socialist CFDT federation is boycotting because it argues enough concessions have been won.

The momentum of the protest movement will be judged by whether tomorrow's protests measure up to the huge marches on Wednesday when, even on police estimates, nearly 1m French took to the streets.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297 0621, Fax (01) 4297 0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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M3 prompted Bundesbank to cut rates

By Andrew Fisher in Frankfurt

So they did it after all. Economists had speculated widely that the Bundesbank would cut interest rates again soon, but many thought it would wait until next year.

As ever, the signals had been mixed, although Mr Hans Tietmeyer, the Bundesbank's president, took pleasure at yesterday's press conference in stating that they had been clear enough.

In a recent speech to the Hamburg shipping club, he said monetary stability would be the standard by which it would set its money supply target for 1996 and take the appropriate interest rate decisions. Despite the economic arguments in favour of lower rates, the Bundesbank said its move was basely chiefly on monetary criteria.

Yesterday's half percentage point cut in the discount and Lombard rate to 3 per cent and 5 per cent respectively bring these to their lowest level since July 1988. The reduction in these official short-term rates, which effectively represent the lower and upper floor for money market dealings, is the third by the central bank this year.

This steady lowering of rates reflects the weak development of M3, the broad monetary supply aggregate which is the main yardstick of Bundesbank policy. Having shot ahead alarmingly for much of last year – mostly because funds were invested in short-term deposits rather than long-term assets – it has crept along timidly in 1995.

After a weak start, M3 picked up in the summer but then flagged. Thus the M3 target range of between 4 and 6 per cent growth has been undershot considerably. "The development of the money supply is also being held back by slower economic activity," the Bundesbank said. "The interest rate cut is intended to lift money supply growth onto a path in line with [economic] potential."

For next year, the bank has set an M3 range of 4–7 per cent. This takes account of potential economic activity, price projections and monetary circulation trends and was broadly in line with market expectations. Mr Tietmeyer reaffirmed the Bundesbank's adherence to annual money supply targeting, saying it saw "no convincing alternative".

Though it is reluctant to concede its policies are influenced much by broad economic trends – let alone by politicians' calls for lower rates – the Bundesbank said its rate cut was supported by circumstances outside the monetary arena. The price outlook was positive, with inflation below 2 per cent a year, and the D-Mark remained strong.

While the faltering economy could do with some extra stimulus, Mr Tietmeyer reinforced the anti-pessimistic line taken in its latest monthly report. "In our view, there is no threat of recession," Mr Tietmeyer said. Economic expansion should continue next year. "The rate cut should not be seen as a confirmation of economic pessimism."

If the economy does worsen further, or the French franc weaken sharply, some economists feel rates could even fall again. Yesterday, however, Mr Tietmeyer said the Bundesbank had not considered the views of politicians in Paris, Bonn or Madrid, where the European Union summit starts today. "Our basic orientation is based on the development of money supply."

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Lex, Page 14

Dini imposes confidence vote to pass budget

By Robert Graham in Rome

The Italian government yesterday took the risk of imposing a vote of confidence on the 1996 budget in order to force its way through parliament before Christmas.

As the debate on the vote began last night, Mr Silvio Berlusconi, leader of Forza Italia and head of a right-wing alliance, pledged to vote against the government. But there were signs that this hard line was causing divisions among his allies, divisions that will have to be resolved before today's vote.

The small centre parties that have allied with Mr Berlusconi since he entered politics – mostly splinter groups from the former Christian Democrats – were last night considering whether to break ranks. In recent days they have repeatedly advocated the need to back the budget to reassure the financial markets.

If they join forces with the centre-left parties supporting Mr Lamberto Dini, the prime minister, this could lead to the break-up of Mr Berlusconi's alliance, causing a realignment in the political system and increasing the likelihood that Mr Dini will be able to continue in office until June when Italy's six-month presidency of the EU ends.

If the alliance remains solid, its opposition to the budget casts a cloud over whether the package can pass through parliament in its present form – and before the December 31 deadline.

The hardline members of the Reconstructed Communism party have pledged to vote against the budget. Combined support from opposite ends of the political spectrum would leave the outcome on a knife edge.

● Steel city looks to restore its pride

'Aged communists seeking new heroes

RUSSIAN ELECTIONS December 17

John Thornhill reports from Magnitogorsk, which many now see as 'a city of victims'

Russia's Communists built the giant steel town of Magnitogorsk in the shadows of the Ural mountains to be a model Soviet community brimming with proletarian muscle and revolutionary fire. But in 1993 Magnitogorsk's 450,000 residents turned their backs on their past and overwhelmingly voted for pro-market reformers. Now the city's ageing communists are determined to regain control of their city in Sunday's parliamentary elections.

"During the war, we were the city of heroes. Now we are the city of social victims," says one embittered communist pensioner out walking on a mild winter's day. "We want to restore pride in our city which the world once knew as 'Miraculous, Magnitka'."

For what they are worth, which may not be much, the local opinion polls mirror the national trend showing a shift in support towards the communists. But in Magnitogorsk the party is starting from a low base. It won only 6 per cent of the vote in 1993 compared with 35 per cent for Russia's Choice, the then pro-government party headed by the former prime minister, Mr Yegor Gaidar.

Mrs Zoya Pronina, the softly spoken Communist party candidate who sports a scarlet blouse and a party badge, believes the communists could win as much as 17 per cent of the votes which could make them the most popular party in the region if the democratic vote is split. Such support would help the communists win a big share of the 225 seats in Russia's 450-strong parliament which are allocated by proportional representation.

The communists are running an overtly populist campaign promising to increase spending on health, education and pensions and to redistribute wealth.

"It is a threat to the stability of society when we have such a divergence in income levels as we have today," she says.

"Why is it that directors at the steel Kombinat who have been there a short time own more than 1,000 shares while my friend who has worked there for 20 years has only 17. Property can only be divided according to the collective interests of the workers."

Such sentiments strike an emotive chord in a city built at huge human and financial cost as part of Stalin's crash industrialisation drive but which produced steel to build the tanks to save Russia from fascist Germany.

Even so, Mr Alexander Pochinok, the incumbent Russia's Choice deputy, is confident he will retain his parliamentary seat, which is determined by means of a simultaneous first-past-the-post ballot.

"We will do worse than in 1993. The influence of the communists is on the rise all over the former communist world. But we still hope that we will receive enough votes to win."

Sitting in his headquarters in a library stacked with journals on questions of philosophy, the engagingly eccentric Mr Pochinok argues that Magnitogorsk's high level of education and strong democratic tradition will help the reformers.

"The drop of our support is the understandable reaction of people against the slow pace of reform in the country and a fondness for all the certainties of the past. Under Socialism, there was cheap sausage, a sense of order, and a guaranteed pension."

Communist party workers privately concede their candidate does not have much chance of success because of her sex. Not one woman was elected to parliament in 1993 in the direct poll.

Mr Georgii Tikhonov, chief editor of the Magnitogorsk newspaper, believes the main challenger to the incumbent is Mr Dinus Saphiullin, a director of Magnitogorsk Metallurgical Kombinat, who is running as an independent candidate having distanced himself from the pro-Government Our Home is Russia movement. "But Mr Pochinok has enormous experience of parliamentary work and has done a lot for the city as deputy of the parliamentary budget committee," said Mr Tikhonov.

Outside the ranks of Magnitogorsk political activists, there appears widespread disillusion with the elections in general and disgust at the behaviour of the country's leadership in Moscow.

Writing about Magnitogorsk in the 1930s, the American steel worker John Scott described a town where "money was spent like water, men froze, hungered and suffered, but the construction work went on with a disregard for individuals and a mass heroism seldom paralleled in history."

Magnitogorsk's present day inhabitants are discovering that the construction of capitalism is a far from heroic process and that the development of the parliamentary democracy throws up as many uncertainties as it resolves.

● In the countryside, frustration over the new Russia is tangible

The anger lies in the soil

Matthew Kaminski tests opinion in the depressed agricultural heartland

A dispatcher at the Nadezhda collective farm vents her anger: "We want back the life we once had. My oldest son sits at home without a job, my youngest can't get a proper education. Russia needs more order."

Ms Lena Lebedeva echoes the dominant sentiment heard across the open Kuban, Russia's agricultural heartland. Days before parliamentary elections, the Communist and Agrarian parties are waging a two-pronged attack in the depressed countryside to tap into frustration among the millions disillusioned by the new Russia.

As pro-reform parties feud and divide the liberal vote, the Agrarians in Stavropol are co-ordinating their electoral strategy with the rejuvenated Communist party, their natural allies. "We concentrate on the rural areas and they give priority to the industrial areas of the region," says Mr Sergei Bystrov, the Agrarian party's regional head. The two parties together drew up the candidate lists, he adds.

Agrarians appeal to farm directors. The party opposes farm reform and land privatisation and bankers after more state credits and trade protection. Agriculture proved most resilient to the economic changes of the past four years and, it might be argued, suffered the most as well, with this year's harvest being the lowest in three decades.

During the campaign, Nadezhda's leadership brought in Agrarian candidates to meet the collective's 1,800 workers, already down from several thousand.

"Only they will look after our interests," says Mr Sergei Volkov, a deputy director at Nadezhda collective which, like most Russian state farms, was superficially transformed into a closed joint-stock company after 1991.

The party received 8 per cent of support in the last election by tapping into rural areas that account for 36 per cent of Russia's population. If they deliver at least 10 per cent this time, the Communists would have a formidable and loyal coalition partner in the new Duma.

Mr Vasily Starodubtsev, the Agrarian leader, yesterday appealed to the growing sense of iniquity in central Russia – where parties opposed to the government are again expected to dominate – by proclaiming "everything was stolen or sold out during the years of so-called reform, only the land is left".

But, he warned, land too "is a desirable target for the new Russians and their foreign patrons".

But the Agrarian-Communist vote is not secure. Farm directors may not be able to deliver the vote to the Agrarians, as before in bogus Soviet elections. Trade unions are weak, making guaranteed bloc voting difficult. At Nadezhda, Mr Volkov jokes that open coercion might force his workers, participating in their second free elections, to rebel.

Moreover, other parties also appeal with the same message. Mr Starodubtsev's perceived foreign threat to land, which Russia possesses in greater supply than any other country, plays on the particularly rural brand of nationalism. It goes hand in hand with the call for a powerful, single leader.

Fed up with the mess in Russia, Ms Lebedeva says she would choose "a strong hand of a good leader" over freedom. Stavropol's voters in 1993 gave Mr Vladimir Zhirinovsky 38.5 per cent, almost double the 22.9 his nationalist party received nationally. The Agrarians and Communists look likely to garner much of the Zhirinovsky protest vote, but General Alexander Lebed may mop up the rest.

Gen Lebed last week paid his second visit in less than a month to Russia's last bastion before the unruly Caucasus, highlighting Stavropol's position as fertile ground for the opposition vote. Mr Lebed is the popular figurehead of the Congress of Russian Communities (KRO), a nationalist party.

Strangely left out of the region's political cocktail is Our Home Is Russia, the well-financed governing party bloc which seems to lack a natural constituency in the unhappy heartland. Its bright posters hang visibly on Stavropol's low 19th century buildings, yet a party official worries the campaign pits "everyone else against the government – that is everyone else against us".

Chechen fighting resumes

By Chrystia Freeland

A fresh burst of fighting in the breakaway Chechen republic yesterday overshadowed preparations in the rest of the Russian federation for parliamentary elections on Sunday.

Chechen separatists, who have defied Russia's year-long campaign to bring their republic to heel, yesterday seized several buildings in the centre of Gudermes, the second largest city in Chechnya. The Russian military responded by firing rockets on Gudermes from helicopter gunships and sending in troops in armoured personnel carriers in a battle in which a reported 12 Russian soldiers have already died.

The battle confirmed predictions that Russia's effort to hold elections for a regional leader of Chechnya would provoke renewed fighting. Most Chechens are expected to boycott the polls.

In a move which could create huge technical difficulties for Sunday's vote, Russia's air-traffic controllers yesterday threatened to strike over non-payment of wages and controls over airspace. Teachers also launched a two-day strike yesterday over low salaries.

EUROPEAN NEWS DIGEST

German justice minister resigns

Ms Sabine Leutheusser-Schnarrenberger, Germany's justice minister, resigned yesterday after members of her liberal Free Democratic party backed a party motion supporting electronic surveillance of suspected criminals, something she has consistently opposed. There had been speculation that Ms Leutheusser-Schnarrenberger's resignation, which she had hinted at two weeks ago, would cause a minor reshuffle in Chancellor Helmut Kohl's cabinet, adding to his difficulties with the FDP, the small coalition party. However, last night it appeared as if Ms Leutheusser-Schnarrenberger would be replaced by another member of the FDP and that no further changes would be made.

About 34,000 of the FDP's 80,000 members took part in an internal referendum, the first the party has conducted, with around 63 per cent voting in favour of surveillance.
Michael Lindemann, Bonn

Agreement on parent leave

European employers and trade unions yesterday signed an agreement in Brussels that provides employees across the European Union with the right to up to three months unpaid parental leave at any time in a child's first eight years. The agreement, the first to be reached under the "social dialogue" procedure, will now go to the European Union governments for their approval early next year. It will then be legislated into law in every EU state except the UK which opted out of the procedure contained in the Maastricht treaty's social chapter. The British Trades Union Congress believes, however, that most British companies will implement the agreement as they have to apply it to their mainland European employees.
Robert Taylor, London

Necker attacks Kohl policies

Mr Tyll Necker, the former head of the Federation of German Industry (BDI), the most powerful industrial lobby, was yesterday quoted as saying that Chancellor Helmut Kohl "never had any idea about economic issues". In an interview with the weekly newspaper Die Woche, Mr Necker, who stepped down as BDI chairman last year, said Germany faced a critical situation where the high level of taxes and social security contributions were destroying jobs. "More unemployment causes further social spending which leads to higher taxes and yet more unemployed," Mr Necker said. Germany's growing problems could not be solved by a series of "alliances or pacts", a reference to the consensual approach preferred by Mr Kohl. However, Mr Necker has denied he made the comments, apparently aware of the repercussions his comments would have.

The outspoken attack comes as Chancellor Kohl's government grapples with the fact that economic growth this year has been lower than expected and that unemployment is rising faster than forecast. Industry's complaints about the high level of German corporate taxes have also become louder than usual, partly as German exporters feel the effects of the strong D-Mark against the dollar and other European currencies.
Michael Lindemann

Enron resumes court action in Dabhol row

By Mark Nicholson in New Delhi

Enron, the US energy group, said yesterday it was still "looking forward" to approval of renegotiated terms for its Dabhol power project by the cabinet of the Indian state government of Maharashtra, despite having formally resumed legal proceedings in London for damages which were opened after the project was "cancelled" in August.

Both Enron and the state's government agreed last month that arbitration proceedings in London should be suspended until December 10, by which time the Maharashtra administration had said it expected its cabinet to have reached a decision on a renegotiated package for the project.

However, no such decision has been reached and the US company said that pursuit of legal recourse would therefore resume.

Mr Sanjay Batnagar, vice-president of Enron in India, said: "We are honestly perplexed at what constraints have prevented the government on the renegotiated terms."

The state government, a Hindu nationalist coalition of the Bharatiya Janata party and the Shiv Sena, has made no official comment.

A committee of experts formed by the government agreed to a renegotiated formula for the $2.8bn power plant last month, but neither they nor Enron have released details of the new package.

However, the Indian press has widely reported that the renegotiated deal appears to meet the central objections to the power plant raised by the state government when it scrapped the project, India's biggest foreign investment, in early August.

The government said the deal, agreed by the state's former Congress party administration, was too costly. Its power tariff of Rs2.40 (7 US cents) per unit too high and that the plant, on the coast south of Bombay, would harm the environment.

After renegotiation, Enron is believed to have agreed to cut the cost of the two-phase project by $330m, to have cut the averaged tariff to Rs1.89 per unit over its initial 20-year contracted life and to raise the plant's total exportable power from an original 2,015MW to 2,450MW.

The cost cuts appear to have been made possible in a formula which includes the second phase of the proposed power plant in the calculations.

The dispute over Dabhol originally concerned only the first phase 695MW component of the project; the only phase to which the previous state government had actually agreed.

The renegotiated package would therefore, if approved by Maharashtra's cabinet, secure for the first time both phases of the power plant. Enron has also offered the state's electricity board a stake of up to 30 per cent in the project.

The cause of the cabinet's delay is unknown, but some reports have suggested that the BJP has insisted that further cuts be made in the capital cost of the project.

Enron has said it stands by the renegotiated package and that no further bargaining would be possible.

Dresden wins $2bn microchip plant

By Michael Lindemann in Bonn

Advanced Micro Devices of the US yesterday announced it would build a semiconductor plant in Dresden, eastern Germany. AMD said it would create 1,400 jobs as part of an investment worth DM2.8bn ($2bn) in Saxony, the east German land which has been most successful in attracting investments since German reunification.

AMD, based in Sunnyvale, California, said it would start construction late next year and begin operations two years later.

AMD will invest DM500m directly and take a DM500m loan from the Dresdner Bank. The government of Saxony and the federal German government will provide investment subsidies worth DM800m and a surety worth DM1bn.

As well as building a plant to manufacture the semiconductors, AMD will build a research centre working together with AMD's plants in Texas and California, creating 200 of the 1,400 jobs overall.

Persuading AMD to locate in Dresden, a process which lasted two years, is a significant fillip for Saxony's efforts to become a location for high-technology industries.

Saxony and the neighbouring state of Thuringia have been more successful than the north-eastern German states in attracting high-technology investments, partly because the former east German microelectronics industry was based in the region.

Siemens, the leading German electronics group, has established a semi-conductor plant in Dresden, creating a similar number of jobs, and these two major investments are expected to attract a number of smaller supplier companies which the Saxon state government hopes will create a further 3,000 jobs.

However, the region recently lost out in an effort to persuade Siemens to build another plant to produce a new generation of so-called Asic semi-conductors, apparently because of excessive labour costs in eastern Germany.

AMD had been looking at unspecified alternative locations but had opted for Saxony because of the size of the German market and the availability of subsidies, the company said in a statement.

Mr Jerry Sanders, AMD's chief executive, said the microprocessors which would be made at the Dresden plant were among the fastest growing microelectronic products and were expected to represent about 25 per cent of the world-wide semiconductor sales worth about $300bn by 2000. AMD had sales last year of $2.1bn.

FDI 'more important now than trade'

By Frances Williams in Geneva

Unctad's economists expect the flow of foreign direct investment this year to be around $235bn, slightly surpassing last year's $226bn and bringing the world FDI stock to $2,500bn in 1995.

Mr Rubens Ricupero, Unctad's secretary general, said yesterday that FDI now superseded trade as the most important mechanism for international economic integration.

The 250,000 foreign affiliates of the world's 40,000 multinationals had sales of over $5,200bn last year, more than all world trade in goods and services, he noted.

Multinationals account directly for about two-thirds of all world trade, about half of this being internal transactions between affiliates of the same company, an Unctad report points out.

The US remains both the biggest overseas investor and the largest recipient of foreign direct investment, with outflows of $46bn and inflows of $49bn in 1994.

The FDI stock within the US (on a historical cost basis) is over $500bn, while US multinationals had assets of $610bn abroad, more than a quarter of the world's stock.

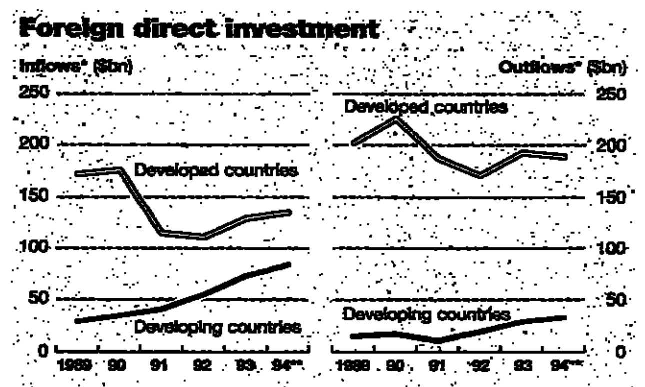
However, an increasing proportion of FDI – 37 per cent last year – goes to developing countries and when intra-European Union investment is excluded that figure rises to 44 per cent. Unctad expects flows to developing countries to reach $90bn this year from $84bn in 1994 – more than triple the 1989 level.

Sir Leon Brittan, EU trade commissioner, said yesterday that the Unctad report confirmed the value of foreign investment to poor countries as well as rich ones.

He again called for international rules on protecting and facilitating investment to be discussed by an informal working group of the World Trade Organisation in parallel with current OECD negotiations on a multilateral investment treaty.

Unctad urges phasing out of restrictions on investment

By Guy de Jonquières



Direct investments by transnational companies play an increasingly important role in stimulating the restructuring of national economies, particularly in the developing world, according to a report by the United Nations Conference on Trade and Development.

However, it warns host countries that they will not capture the full benefits – and could harm their own industrial competitiveness – unless they act decisively to phase out restrictions which prevent local companies from investing abroad.

The report says that, as well as helping to attract mobile foreign direct investment (FDI), national industrial reforms are actively encouraged by the arrival and local expansion of companies from abroad.

It says the clearest evidence of such "tandem development" is in east and south-east Asia, where the extensive activities of US and Japanese companies should be recognised as an important reason for the region's above-average economic growth.

By contributing technology, employment and management skills, these companies have helped upgrade the local industrial base, the report says.

"In particular, they turned inward-looking industries into export-oriented, internationally competitive industries, helping countries to realise or enhance their comparative advantages," the report says.

The results were most impressive in knowledge-intensive manufacturing, such as electronics. As well as boosting exports, the presence of foreign-owned plants had encouraged the emergence of successful local manufacturers in countries such as South Korea.

Other developing countries, notably in Latin America and eastern Europe, could emulate these successes. But the increased importance of market forces calls for policies more liberal than the interventionist approaches favoured by many Asian countries in the past.

However, developing countries, which absorbed $84bn of last year's total $226bn FDI flows, risk handicapping indigenous companies – and even threatening their survival – if these were prevented from investing abroad.

"If imports and inward FDI are being liberalised, [companies] are doubly handicapped, in that [they] must confront foreign competitors at home, without a comparable opportunity to realise benefits from their own overseas investments, or from challenging competitors in their home markets."

The report says reconciling the competitive needs of industry with national balance-of-payments pressures poses a policy dilemma for many developing countries. However, liberalising exchange controls would substantially benefit their economies in the longer term.

Though industrialised countries continue to account for most FDI outflows – $189bn last year – the share generated by developing countries had edged up to $33bn. At 15 per cent of the total, that was more than double the proportion during the 1980s.

Cemex, the Mexican cement group, was the biggest overseas investor from any developing country, with foreign assets of $3.6bn. However, these were smaller than those of RJR Nabisco of the US, the 100th largest overseas investor in the industrialised world.

China attracted $27bn of inward FDI last year, almost four times more than Singapore, the next largest recipient among developing countries. There was no evidence that China had diverted projects from other developing countries.

However, it expresses concern that competition between developing countries to offer financial incentives to inward investors may get out of hand, and that the sums paid could negate the economic benefits of some projects.

It calls on governments systematically to review the costs and benefits of incentives, and suggests that closer international co-operation is needed to increase transparency and impose disciplines on policies.

World Investment Report 1995: Transnational Corporation and Competitiveness. UN Sales Section, Palais des Nations, CH-1211 Geneva 10, fax: +41 22 907 0027, or UN Publications, UN Plaza, 10017 New York, fax: +1 212 963 3062. $45

West European market sees 3.6% growth after months of stagnation

Rise in car sales lifts hopes of manufacturers

By John Griffiths

Car sales in western Europe rose more than expected in November, stirring faint hopes among manufacturers that recovery might start to regain momentum after several months of stagnation.

Statistics issued by the European Automobile Manufacturers' Association (ACEA) yesterday showed a 3.6 per cent year-on-year rise in sales last month to 953,300, with sales up in 12 of the 17 countries monitored.

This brought sales for the first 11 months of the year to 11,257,100, a 1.1 per cent rise on a year ago.

Optimism was strengthened by a 7 per cent November increase in sales in Germany, Europe's single largest market which has now shown clear growth for several months after prolonged stagnation.

A 12.8 per cent November increase in the UK and a 12.5 per cent rise in Italy helped offset a further 9.3 per cent fall in France, where a new round of incentives to scrap old cars is lacking the success of a similar earlier initiative.

Last month saw the Volkswagen group further strengthen its grip on leadership of the west European market, its sales for the month jumping by 16.9 per cent, year-on-year, to 163,600.

This brought its share for the year to date to 16.8 per cent, a full percentage point higher than in the same period of 1994 and nearly 4 percentage points clear of its closest rival, General Motors.

Once again, however, by far the fastest growth is being recorded by Korean manufacturers.

Their collective sales last month soared by 119.6 per cent to 17,500 units, bringing total sales for the year to date to 167,031. This represents a market share of 1.5 per cent compared with 0.9 in the same period of last year.

Europe's car industry, Page 13

WEST EUROPEAN NEW CAR REGISTRATIONS
January-November 1995

	Volume (Units)	Volume Change(%)	Share (%) Jan-Nov 95	Share (%) Jan-Nov 94
TOTAL MARKET	11,257,100	+1.1	100.0	100.0
MANUFACTURERS:				
Volkswagen group	1,855,908	+7.1	16.8	15.8
– Volkswagen	1,199,613	+5.6	10.7	10.2
– Audi	355,471	+22.4	3.2	2.6
– Seat	270,698	-3.1	2.4	2.5
– Skoda*	60,126	+10.3	0.5	0.5
General Motors#	1,466,666	+1.8	13.0	12.9
– Opel/Vauxhall	1,400,977	+1.8	12.4	12.4
– Saab**	53,947	+13.1	0.5	0.4
PSA Peugeot Citroen	1,354,259	-5.3	12.0	12.8
– Peugeot	808,327	-5.9	7.2	7.7
– Citroen	545,932	-4.3	4.8	5.1
Ford group#	1,344,752	+1.6	11.9	11.9
– Ford	1,330,333	+1.3	11.8	11.8
– Jaguar	14,419	+47.5	0.1	0.1
Renault	1,166,534	-4.3	10.4	10.9
Fiat group##	1,252,529	+3.5	11.1	10.9
– Fiat	979,648	+1.8	8.7	8.6
– Lancia	151,681	+0.3	1.3	1.4
– Alfa Romeo	119,350	+26.0	1.1	0.9
BMW group	703,785	-2.7	6.3	6.5
– BMW	360,657	-0.2	3.2	3.2
– Rover	343,128	-5.2	3.0	3.3
Mercedes-Benz	374,634	-5.9	3.3	3.6
Nissan	346,678	-4.1	3.1	3.2
Toyota	285,912	-2.4	2.5	2.6
Volvo	204,735	+10.2	1.8	1.7
Mazda	154,132	-6.7	1.4	1.5
Honda	167,779	+5.6	1.5	1.4
Mitsubishi	120,397	+9.2	1.1	1.0
Total Japanese	1,209,421	-0.7	10.7	10.9
Korean	167,031	+70.9	1.5	0.9
MARKETS:				
Germany	3,081,900	+3.9	27.4	26.6
United Kingdom	1,873,800	+2.0	16.6	16.5
France	1,788,400	-0.6	15.9	16.1
Italy	1,598,200	+1.3	14.2	14.2
Spain	751,300	-8.2	6.7	7.3

*VW holds 60.3 per cent and management control of Skoda.
#Includes cars imported from US and sold in western Europe.
**GM holds 50 per cent and management control of Saab Automobile.
Fiat group includes Lancia, Alfa Romeo, Innocenti, Ferrari and Maserati.
Source : ACEA (European Automobile Manufacturers Association) estimates. Figures are rounded.

Hong Kong and Australia settle dispute over flights

By Nikki Tait in Sydney and Simon Holberton in Hong Kong

The eight-month aviation row between Australia and Hong Kong was settled yesterday, when both governments signed a compromise memorandum on Qantas' "fifth-freedom" rights from Hong Kong to Singapore and Bangkok.

In Hong Kong a spokesman for Cathay Pacific described the agreement as "sensible". "Given the importance of the route, we always expected the two governments to reach a sensible agreement," he said.

Fifth freedom rights are those which allow an airline to carry passengers between destinations outside its home country. Cathay Pacific, the Hong Kong-based carrier, had been unhappy about intra-Asian traffic which Qantas, the newly privatised Australian carrier, was picking up in Hong Kong and flying on to Singapore or Bangkok. It also claimed Qantas was using its fifth freedom rights to offer services to European destinations.

When the Hong Kong government threatened to restrict Qantas' fifth freedom rights to 50 per cent of its traffic on the Hong Kong-Singapore and Hong Kong-Bangkok services, Australia retaliated by saying it would not renew the agreement allowing Cathay to fly to Australia. A temporary peace was eventually agreed, but the two governments set December 31 as the deadline for a resolution of the matter.

Details of yesterday's pact remained confidential but Australia's federal government conceded that it had accepted a limit on the amount of fifth freedom traffic which Qantas could carry.

However, it said Qantas services using Boeing 767 aircraft on the Hong Kong-Singapore and Hong Kong-Bangkok routes would not be affected. Similarly, Qantas should not be affected if it took up unused rights which were agreed with Hong Kong in 1991, "provided it does not introduce larger aircraft, such as Boeing-747s".

Qantas said it did not expect the new arrangements to have any impact on bottom-line profits. "They are not expected to affect our current operations between Hong Kong, Singapore and Bangkok," said Mr James Strong, managing director.

WORLD TRADE NEWS DIGEST

Japan buys more imported chips

Foreign companies' share of the Japanese computer chip market hit a record 26.2 per cent in the third quarter, the US government said yesterday. The previous record was 23.7 per cent, in the fourth quarter of 1994.

Foreign chip makers' market share was 22.9 per cent in the 1995 second quarter, the US trade representative's office said. "I am pleased that foreign companies have achieved yet another record share of Japan's semiconductor market," Mr Mickey Kantor, US trade representative, said.

He said the rise in foreign companies' share of the Japanese semiconductor market since a 1991 agreement to open up that market to US and other foreign suppliers showed that renewal of the agreement was needed to maintain progress.

The Japanese chip industry has urged that the agreement be allowed to expire next summer. US industry has called for it to be renewed. *Reuter, Washington*

Peugeot to invest in Vietnam

Peugeot, the French motor group, yesterday announced plans to set up a joint venture assembly plant in Vietnam as part of its strategy of expansion in the region.

The project, which involves a partnership with Formach of Vietnam and Planworth of Malaysia, is aimed at producing 5,000 vehicles a year. The total investment is estimated at about $30m, with production due to start by the end of 1997.

The French group is expected to be the biggest investor in the project, with a 45 per cent stake. Initially, the joint company will produce the Peugeot 405 medium-sized car and the Citroën ZX. The partners are considering a second phase of the joint venture, which would double production to about 10,000 vehicles a year. *John Ridding, Paris*

Pakistan opens up to India

Pakistan yesterday said it was bound to open trade borders with old enemy India under new international treaties but would not give it Most Favoured Nation status.

The commerce minister Mr Ahmad Mukhtar told parliament that Pakistan would import only those Indian goods that benefited it, while pursuing the objectives of the World Trade Organisation, successor to the General Agreement on Tariffs and Trade (Gatt), and a newly launched south Asian trade pact. India and Pakistan are the main partners in the seven-nation South Asian Association for Regional Co-operation (SAARC) which agreed a trade pact last week.

Replying to opposition fears that freer trade with India, the largest economy in the SAARC group, would harm Pakistani manufacturers, he said Pakistan would have suffered more if it had not signed the Gatt treaty. *Reuter, Islamabad*

■ A consortium of 60 international telecommunications carriers, including Kokusai Denshin Denwa and AT&T, has finished constructing the southern route of the TPC-5 transpacific submarine cable. The group will start full operation of the 14,800km southern route connecting Japan's Kanagawa Prefecture and California via Guam and Hawaii on December 31. Since July, the group has partially operated the TPC-5 cable route between Kanagawa and Guam and between Hawaii and California. *Reuter, Tokyo*

■ SNC Lavalin, Canada's biggest engineering and construction management group, with ESSA Technologies of Vancouver, will provide environmental management services to Vietnam over the next four years under a C$8m (US$5.8m) contract with the Canadian International Development Agency. *Robert Gibbens, Montreal*

■ Ever Fortune, a Taiwanese construction company, has won a bid to build a T$6bn (US$220m) theme park in the central city of Taichung, the park's land owner, state-run Taiwan Sugar Corp said. The theme park, to occupy 120 hectares of the total 198 hectares of land offered by Taiwan Sugar, would be Taiwan's biggest amusement park. *Reuter, Taipei*

■ Hyundai Motor, South Korea's largest carmaker, signed a letter of intent with Hungary's Cel Motors to build a joint venture factory in Hungary to make 1,000 commercial vehicles a year, Hyundai said. The two companies will look for a plant site and hope to complete construction by late next year. Hyundai and Cel plan to produce 200 2.5 and 3.5-tonne trucks in 1996 and gradually increase their production to 1,000 in 1998. *Reuter, Tokyo*

■ Mitsubishi and Hitachi of Japan have jointly won an order for 24 rail cars worth Y2bn ($20m) from the Indonesia Railway Public Corporation, the country's national railway company. Four of the cars will be made by Hitachi in Japan, and the rest will be made by PT Inka, the state-owned rail car maker, under Hitachi's technical assistance. Delivery of the rail cars will start in 1997. *Tokyo, Reuter*

NEWS: THE AMERICAS

Clinton faces fresh squalls on Whitewater

By Jurek Martin in Washington

The White House yesterday made an eleventh hour offer to the Senate Whitewater committee to head off a looming confrontation with constitutional overtones over the First Family's financial dealings in Arkansas.

It said it would provide the committee notes written by a White House legal counsel of a November 1993 meeting with President Bill Clinton's private lawyers. Four presidential aides present at that meeting would also testify before the committee, though the private lawyers would not.

The offer came as the Whitewater committee, under the chairmanship of Senator Al D'Amato of New York, was prepared to vote to subpoena documents the White House had previously insisted were protected by legal privilege.

In a television interview broadcast on Wednesday night, Mr Clinton described the Republican-led committee's approach as a ploy "to get the President of the United States to waive any confidential conversation he may ever have with his lawyers who work for the government or with his private lawyers."

It was not immediately clear what effect the White House would have on the committee vote on the subpoenas, which, if passed and then endorsed by the full Senate, would send the issue to the courts for months. Committee Democrats were threatening to block any action in the Senate.

The Whitewater affair has been off the public front burner for months, an issue mostly for Republicans in Congress and for the anti-Clinton rightwing media.

But the White House's partial invocation this week of the concept of "executive privilege", used without ultimate success by President Richard Nixon to ward off the Watergate investigations, has raised broader concerns of a more substantive cover-up.

Two close aides to Mr Clinton have refused to testify in front of the committee, prompting both the New York Times and the Washington Post, the most prominent non-conservative newspapers, to publish editorials critical of the White House position.

None of this has yet affected the president's recovered popularity, mostly obtained at the expense of the Republican agenda in Congress. An opinion poll released yesterday by the New York Times/CBS News gave him his highest rating in nearly two years and a 52-40 per cent lead over Senator Bob Dole, the majority leader, in next year's presidential race.

But Whitewater, also the target of investigations by special counsel Mr Kenneth Starr, remains an uncertain cloud over Mr Clinton's re-election prospects. It could be rendered more threatening next year by a legal battle over the documents as well as by any damaging conclusions from Mr Starr.

The committee yesterday narrowed its subpoena targets from five documents to two, including the account of the November 5 1993 meeting written by Mr William Kennedy, then on the White House legal staff. The second is a chronology of the whole Whitewater affair compiled five days later by Mr David Kendall, Mr Clinton's private lawyer.

The committee's keenest interest centres on White House actions in the wake of the suicide in the summer of 1993 of Mr Vincent Foster, who served both as deputy White House counsel and the Clintons' private lawyer, and who previously worked in the Arkansas law firm in which Mrs Hillary Clinton was a partner. But it dropped a subpoena demand to see a letter written to Mr Clinton in January 1994 from Mr Foster's attorney.

US momentum grows for early rate cut

By Michael Prowse in Washington

Reports of flat consumer prices and a modest rebound in industrial production were seen yesterday as creating a favourable backdrop for an early cut in US interest rates.

The Labour Department said the consumer price index was unchanged last month and up 2.6 per cent in the year to November. It was the first time in more than four years that consumer prices did not show a monthly gain.

Separately, the Federal Reserve said industrial production rose 0.2 per cent in November, partially making good a 0.3 per cent decline in October. However, the underlying trend remained sluggish: production was only 1.9 per cent higher than in November last year. Industrial capacity utilisation fell to 83.1 per cent, from 83.2 per cent in October.

Mr Bruce Steinberg, a senior economist at Merrill Lynch in New York, said he expected the Fed to cut rates by a quarter point next Tuesday even if Congress and the White House had not agreed a budget deal. The Fed would not delay action because "growth is sluggish and inflation dormant".

Following figures this week showing an erratic 0.5 per cent gain in producer prices last month, the flat reading on consumer prices provided reassuring confirmation that inflationary pressures remain subdued. In the three months to November, consumer prices rose at an annual rate of only 1.8 per cent. This is close to "stable prices" given that many economists believe the official index overstates the underlying inflation rate by up to 1 percentage point.

Most categories of industrial production registered gains last month: output of consumer goods and business equipment rose 0.3 per cent and 0.5 per cent respectively. The figures would have been slightly stronger but for the impact of a strike at Boeing, the aircraft maker, which depressed overall production by 0.2 percentage points in October and 0.1 percentage points last month.

Economists expect factory output to grow slowly for several months because many manufacturers are still trying to reduce excess inventories.

Entertainment group is centrepiece of a planned $7bn hi-tech prototype community

Dream team for Spielberg's DreamWorks

By Christopher Parkes, West Coast Correspondent

A one-year-old private business, run by three men who do not wear ties and which has yet to reveal its first products, has been named as centrepiece and anchor tenant of a $7bn hi-tech "prototype community for the 21st century".

DreamWorks SKG, the entertainment group founded by film maker Mr Steven Spielberg, pop music's Mr David Geffen, and former head of Disney Studios Mr Jeffrey Katzenberg, is to set up its headquarters on a 1,000-acre plot sandwiched between Los Angeles International airport and the Marina del Rey yacht basin.

The Playa Vista site, inhabited by blue herons, snowy egrets and their diet of frogs, will also house the company's new film studio – the first such facility to be built in the city in at least 50 years – and a self-contained mini-town of 50,000 people.

At a ceremony on Wednesday marking the city council's grudging approval of a tailor-made package of incentives and tax breaks worth about $70m, in return for an undisclosed DreamWorks investment, politicians and promoters variously proclaimed the development as "the world's largest real estate project".

THE DREAM TEAM: Jeffrey Katzenberg (left), Steven Spielberg (centre) and David Geffen   Reuter

Soothing data were released to counter protests that the inner city was being starved of development funds while show business skimmed the subsidies. By 2001, according to a study from accountants Ernst & Young, Playa Vista's economic output would exceed $5bn annually, and its businesses would have generated 32,000 new jobs – on and off the site. The annual benefits to state and local authorities would include a tax "take" of $125m a year.

DreamWorks, which expects ultimately to employ some 1,400 people at Playa Vista (plus a separate workforce at its Glendale animation studios), will bring with it a train of followers and suppliers. These include IBM and computer imaging specialists Silicon Graphics and Digital Domain.

Between them they will occupy some 20 per cent of the available studio and office space. Others, say executives at Maguire Thomas Partners, the development company leading the project, are "bound" to follow.

If the magnetism of the DreamWorks name is insufficient, and the financial incentives do not appeal, there are powerful technological attractions such as the GTE telephone company's high-capacity digital freeway which connects the site – formerly home to Hughes Aircraft and later McDonnell Douglas – with film, media and music companies clustered a little to the north in Santa Monica.

GTE's contribution to the scheme will be an "unmatched" telecommunications infrastructure, according to Mr Charles Lee, chief executive. Businesses, homes, schools, health services and other community facilities will be linked in a system provided with band width capable of transmitting 1m pages of text in four seconds.

The network would allow DreamWorks and others to link studios and post-production centres worldwide, one official said.

Much of film making's potential, experts say, lies in the computerised generation and manipulation of images which demand huge resources in terms of computer storage and transmission capacity.

Even so, and in the continued absence of the full-scale virtual studio (a project to be developed on the site by cyberspace experts from the University of Southern California), Mr Spielberg and company have elected to start in more conventional surroundings.

Indeed, what Mr Spielberg described as the film studios of the 21st century appeared physically to be much the same as the old-style facilities. Only bigger. The DreamWorks television and film factory is to be built in and around the historic, all-wood hangars where Mr Howard Hughes built the first and only wooden eight-engined "Spruce Goose" flying boat.

DreamWorks has undertaken to fit out the still-sound hangars for full-scale film and television programme making.

Mr Spielberg, in baggy trousers and jumper, scraggy whiskers and a black baseball cap, mused extensively on the importance of the dream as a personal incentive and felt there was "a cosmic relevance" in DreamWorks setting up shop in the place where Mr Hughes had attempted to realise his fantasies.

Mr Katzenberg provided the more down-to-earth intelligence that while the film industry was not short of dreams, it was always in need of large, fully-equipped sound stages. The trio's plan to build one 60,000 sq ft unit – the world's biggest – and two others of 25,000 sq ft apiece divided by a removable partition, was drafted on the assumption that they could always be rented out when DreamWorks was not using them.

A hearty round of applause greeted an assurance that in future there would be less need for US-financed films requiring large studios to be made abroad in places such as the James Bond set at Pinewood, Britain.

Samper cleared of drugs charges

A congressional committee handed Colombia's embattled President Ernesto Samper a victory yesterday by voting to clear him of possible impeachment on drug corruption charges. Reuter reports from Bogotá.

The 15-member committee started investigating Mr Samper on August 1 over charges he authorised the receipt of millions of dollars in Cali cartel drug money to help win election last year.

The committee, dominated by members of Mr Samper's Liberal party, said all but one law maker had voted to shelve its preliminary investigation because there was no evidence to warrant a full-blown congressional hearing.

The committee stressed the investigation could be reopened at any time if new evidence surfaced. Prosecutor-General Alfonso Valdivieso is pressing ahead with his own, independent probe of the campaign finance scandal.

The political uncertainty weighing on Colombia's financial markets and prompting bleak economic forecasts for next year is likely to continue.

NEWS: ASIA-PACIFIC

Vietnam seeks to resolve debt as needs loom

Infrastructure projects await financing, but $800m must be settled first, writes **Jeremy Grant**

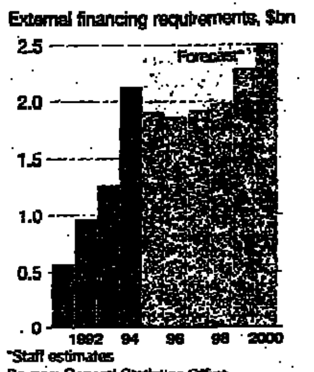
Vietnam is still locked in tough talks with its commercial creditors almost a year after they began, but several debt-related issues are putting pressure on Hanoi to reach agreement on rescheduling its $800m arrears soon.

Most of the money owed is to Japanese banks and trading houses and dates from the late 1970s. Hanoi has no previous experience of debt negotiations and is seeking a one-time rescheduling of the entire amount, probably through Brady-style bonds in a formula similar to that used to resolve Latin American debt in the 1980s.

Until a settlement is reached, the country's sovereign credit risk remains high, choking foreign bank lending when commercial funds are increasingly needed for infrastructure projects. Hanoi had hoped that a deal would also pave the way for its debut on the international capital markets with a $100m Eurobond early next year, capping 10 years of economic reform known as *doi moi*.

Vietnam

External financing requirements, $bn



*Staff estimates
Source: General Statistics Office

Progress in the talks with its commercial creditors – the so-called London Club – has been slow. The main sticking point is Hanoi's insistence on 50 per cent forgiveness at a time when Vietnamese debt is trading on the secondary market at a relatively high 73 cents. Bankers say the London Club is in any case likely to forgive only accrued and penalty interest, which accounts for half the $800m owed.

Vietnam's negotiating position stems partly from a provision in an agreement reached with multilateral – so-called Paris Club – donors last year which recommends that Hanoi seek a 50 per cent write-down at the London Club, represented by the Bank of Tokyo, the principal creditor, and Australia and New Zealand Banking Group (ANZ).

Possibly sensing agreement with the London Club this year, Vietnamese officials recently were talking publicly about a Eurobond issue in 1996. Some foreign bankers say a modest issue could succeed, even if Vietnam were not to seek a credit rating first.

Economic fundamentals are mostly sound. Gross domestic product growth is averaging 8.5 per cent a year and inflation appears to be under control at about 15 per cent. The country's recent accession to the Association of South-East Asian Nations will also help.

Scores of investment bankers from Hong Kong and Singapore have visited Hanoi in the past two years, armed with slick presentations on the mechanics of bonds and offers of free advice. Their sales pitches have often met polite bewilderment from Vietnamese officials who are only just getting to grips with the basics of commercial banking.

Vietnam accepts that a Eurobond would not be possible before resolution of the London Club debt but critics argue, with increasing vigour, that any issue would be premature in any case. They say that Vietnam cannot afford to incur even modest additional debt service obligations when its overall arrears, including a huge rouble debt owed to the former Soviet Union, are unresolved.

"The issue is not whether they do a Eurobond or not," said Mr Bradley Lalonde of Citibank. It's whether they can control the amount of debt they take on board."

Vietnam has foreign exchange reserves of just $830m, according to the World Bank, and a trade deficit that widened to $1.8bn in the first 11 months of this year compared with $900m for the whole of 1994.

To underline the point, the World Bank took advantage of a meeting of multilateral aid donors in Paris at the end of last month to pour cold water on the Eurobond plan. Its rationale was that with foreign investment of $17bn so far and an additional $2.3bn in official development aid pledged by donors at the meeting, Hanoi should concentrate on increasing disbursements of these funds rather than seeking money abroad on what could be expensive commercial terms.

Meanwhile, in spite of years of haggling over an appropriate dollar-rouble exchange rate for Hanoi's estimated Rbs10.5bn debt to the former Soviet republics, mostly Russia, none has been agreed. No matter what rate is fixed, bankers say the figure is large enough to imply a significant hard currency debt, casting a long shadow over Vietnam's future debt service obligations and overseas borrowing plans. "Everybody knows that this [rouble debt] will have to be converted into hard currency at some stage," said one European banker.

While bankers ponder these issues, the London Club talks have come under threat from a British Virgin Islands-registered company, Abbotsford Investments, which is taking Vietcombank, a state-owned commercial bank in whose name most of Vietnam's debt is held, to court in London for repayment of $2.2m of the debt.

Abbotsford is understood to have bought a slice of Vietnamese debt on the secondary market in 1994. Early this year Abbotsford demanded repayment of the loan at full value but Vietcombank refused, saying it was still in talks with the London Club.

Abbotsford responded with a petition served in London in July seeking the winding up of the bank. Vietcombank has made a last-minute offer to settle out of court and the case has been adjourned until mid-January to give time for Abbotsford to consider Vietcombank's terms.

The case does not yet appear to have affected the London Club talks but it has rattled bankers. They fear that if Abbotsford achieves a settlement seen as generous by other, non-London Club holders of Vietnamese debt – about a third of it – this could trigger a wave of claims against Vietcombank, derailing the negotiations.

Japan set to agree tax reform package

By William Dawkins in Tokyo

Japan's three-party coalition was last night poised to agree the outlines of a package of tax reform measures intended to support the fragile economic recovery.

A draft of the plan confirms, as expected by the financial markets, that the government intends to extend into 1996 an existing Y2,000bn ($19.6bn) a year personal income tax rebate. It is to be ratified at a cabinet meeting today.

The draft proposes a Y50bn a year cut in securities transaction tax, now 0.3 per cent, aimed at attracting more foreign investors to buy shares.

In anticipation, the Nikkei 225 share index rose yesterday 1.1 per cent, to an 11-month high of 19,499.30.

Other proposals include a cut in an annual holding tax on land, in what analysts believe will prove an inadequate attempt to revive the property market. Holding tax was introduced in 1992 to restrain a rise in land prices, which have since fallen by about 60 per cent.

The dominant Liberal Democratic party is keen to see the tax abolished, while the left-wing Social Democratic party of Prime Minister Tomiichi Murayama seeks to keep the tax unchanged.

Also planned is a cut in property transaction tax, less controversial. The two sides were working on a compromise last night, expected to produce small cuts in both kinds of property tax, worth up to Y300bn annually.

The holding tax cut would benefit companies with large inner-city land holdings. But the transaction tax cut is unlikely to stimulate property sales so long as prices remain so low, Mr Jeff Young, economist at Salomon Brothers Asia, says.

The tax changes go to parliament for final approval early next year. Next year's budget, a draft of which is due next Wednesday, will be based on the assumption the tax reforms come into effect.

China condemns US reaction to long jail term for dissident

By Tony Walker in Beijing

China bitterly condemned the US yesterday for "unwarranted interference" in its internal affairs following strong US criticism of the jailing of Mr Wei Jingsheng, the prominent dissident.

World outrage over the 14-year jail sentence imposed on Wednesday on Mr Wei, 46, threatens to complicate China's international relationships, particularly those with the US.

Mr Chen Jian, foreign ministry spokesman, used forceful language at a press briefing to single out the US, saying Washington's criticism had "aroused strong indignation in China".

"We strongly condemn these malicious moves by the US side which constitute a grave infringement of China's sovereignty, and interference in China's internal affairs," Mr Chen said.

The Chinese official warned that further US criticism would risk serious deterioration in relations. The US, he said, should stop "vicious actions... so as to save bilateral relations from being severely harmed".

Sino-US relations have been on a roller-coaster ride this year with a deep chill in mid-year over the visit to the US in June of President Lee Teng-hui of Taiwan. Ties had recently begun to improve, but the severe punishment meted out to Mr Wei represents a setback.

Mr John Shattuck, US assistant secretary for democracy, human rights and labour, condemned China's handling of the Wei case, reflecting international revulsion over the severity of the sentence.

"The Chinese authorities handled this case in a way which clearly violated Mr Wei's internationally recognised right to a fair and public hearing of criminal charges against him," Mr Shattuck said.

US congressmen are threatening to reimpose a direct link between China's human rights behaviour and its access to the US market under Most Favoured Nation status rules.

The Clinton administration last year de-linked trade and human rights issues, thus facilitating renewal of China's MFN status. The move was roundly condemned by international human rights groups who argued that China would face fewer human rights constraints.

China's media yesterday acclaimed the sentencing, with the Worker's Daily carrying the story under a headline which read: "Wei Jingsheng gets what he deserves: 14 years in jail."

But many Beijing residents believed the sentence excessive, describing it as an "over-reaction" by a nervous administration involved in a delicate transition from one generation of leaders to another.

Chinese official spokesmen would, however, brook no criticism. "It is purely China's internal affair for its judicial departments to pass sentence on Wei Jingsheng for his activities to subvert the government," said Mr Chen. "China is a sovereign state. It is China's sovereign right to bring law breakers to trial."

Nationalism must not erode relations, says new envoy

US warned over world ties

By William Dawkins

Japan's new ambassador to Washington yesterday warned that budding Japanese nationalism and US domestic politics should not be allowed to erode their relations.

Mr Kunihiko Saito, former vice-foreign minister, who will take up his new post on December 27, cautioned it would be "really unfortunate" if the US public, in a presidential election dominated by domestic politics next year, were to lose interest in foreign policy.

"There is a general tendency in the US to be less and less aware of the role to be played by the US in international affairs," he said. Asia as a whole needed the continued political and security engagement of a strong US to ensure regional stability.

Mr Saito deplored the "buds of near-sighted nationalism" among certain, unnamed Japanese politicians, who asserted Japanese interests more openly than before and showed "an unfortunate tendency to be over-sensitive" about the US.

"Some people say we should be able to say No to the US. This does not make sense to us in the foreign ministry. We have been constantly saying No to the US."

The appointment of Mr Saito, a defender of the security link with the US, comes at a sensitive time in relations between the world's two largest economies after a year of trade disputes. Japanese opinion has swung against the presence of the US military there since the alleged rape in September of a schoolgirl near a US base in Okinawa.

The proportion of Japanese people who view relations with the US favourably has plunged by 12 percentage points over the past year to less than a quarter, a record low, according to a recent opinion poll by the Yomiuri Shimbun, Japan's largest circulation daily newspaper.

Nearly 60 per cent still feel the security pact is useful, but Mr Saito admitted Tokyo should do more to persuade the public of the importance of maintaining the security tie. He hoped Japanese emotions over the US were a passing effect of the 50th anniversary of the second world war surrender by Japan and the situation would improve in coming years.

At the same time, Mr Saito saw "no need to be pessimistic". US-Japan relations were sound in the long term, despite short-term developments.

He did not expect the present differences over access to the Japanese semiconductor and photographic film markets to develop into serious conflicts, such as last summer's row over trade in cars and car parts. Barring a few "minor incidents", senior politicians on both sides saw their relations in a rational and responsible light, he said.

In some important areas, the two powers were co-operating well. He cited the creation of the Korean Energy Development Organisation, to supply nuclear reactors to North Korea in exchange for a freeze in Pyongyang's suspected nuclear weapons programme. An accord for the supply of the reactors is expected to be signed in New York on Friday.

Canberra and Jakarta to sign security pact

By Nikki Tait in Sydney

Australia and Indonesia are to sign a formal security alliance on Monday, committing the two governments to regular consultations and, when appropriate, concerted action on defence matters.

The agreement is the first pact of this nature between the two countries, which have often had a tense relationship. It was revealed in Australia yesterday by Mr Paul Keating, prime minister, who described it as "a serious and important step for both countries".

Mr Keating said the pact had been born out of the increasing diplomatic and economic linkages between the two countries and reflected growing confidence on both sides. "But it goes beyond that: to set out in formal terms for the first time our common interests in the peace and security of the region around us, and our intention to co-operate together in support of those interests," he said.

"The agreement is intended to make an enduring and powerful assertion in the region and outside that the long-term strategic interests of Australia and Indonesia coincide."

The security agreement, under negotiation for 18 months, stipulates the two governments will regularly consult at ministerial level over matters affecting their common security, and co-operate where this would be beneficial either to them or the region.

They would also consult if there were "adverse challenges to either party", and consider measures which could be taken either individually or jointly.

The agreement will be signed in Jakarta, at a meeting bringing together Indonesia's President Suharto, Mr Keating, their foreign and defence ministers, and respective heads of the armed forces.

The pact comes after a year in which human rights issues, notably over East Timor and Irian Jaya, have failed to derail growing trade and diplomatic ties. Defence co-operation has also grown: earlier this year, Indonesian soldiers took part in the "Kangaroo '95" exercises held in northern Australia.

Although Australia's recent pursuit of steadier rapport with its northern neighbour has been partly driven by trade and economic considerations, a close personal relationship between Mr Keating and President Suharto has provided impetus. This week Mr Keating was quoted as saying that a "deep rapprochement" between Australia and Indonesia was the policy initiative he would most like to achieve before leaving public life.

Keating: 'deep rapprochement'

News of the pact brought mixed reaction in Australia. The opposition coalition gave cautious support: "This is a sensible move which builds on Australia's significant defence co-operation with Indonesia," Mr John Howard, opposition leader, said.

Human rights activists, working for East Timorese independence, described it as "not worth the paper it is written on. If Mr Keating and Senator [Gareth] Evans [foreign minister] had any confidence the Australian people would appreciate this agreement, it would have been discussed openly in advance," one said.

Joe Leahy adds from Jakarta: Mr Juwono Sudarsono, an analyst with the National Resilience Institute, an Indonesian think-tank, said the pact was part of moves to strengthen security relations among nations in south-east Asia and the south Pacific in anticipation of the growing domination of Japan, China and Russia. But it stopped short of ensuring automatic mutual defence co-operation in the event of a threat to either nation.

ASIA-PACIFIC NEWS DIGEST

NZ markets fall on Brash move

The New Zealand stock market lost nearly 27 points off its main index yesterday after Mr Don Brash, Reserve Bank governor, announced he was tightening monetary policy in response to the government's announcement of significant tax cuts. The NZSE 40 index slipped 26.82 points to 2,121.78, more than erasing Wednesday's buoyancy when it rose 12.88 after the government announced NZ$1bn (US$649m) tax cuts, to take effect next July shortly before general elections.

The market's mood had been boosted by the Treasury's accompanying positive statements on the fiscal position and growth prospects over the next three years.

Mr Brash said short-term domestic interest rates and the trade-weighted currency would have to rise over the next two quarters to counter risks of higher inflation next year. Real risks existed of inflation breaking through the 0-2 per cent target range unless the bank kept a firm grip on monetary policy.

Terry Hall, Wellington

Japanese businesses spend more

Japanese companies have started to spend more on plant and equipment, but the number of business collapses continues to rise, the latest batch of economic data show. Corporate capital spending in the three months to September rose 5.1 per cent against the same period last year, the finance ministry announced yesterday. That came after a 1.9 per cent year-on-year rise in the three months to June, the first such increase in three and a half years and proof that capital investment might have hit bottom, an official said.

But if the strong are gearing up for recovery, the number of failures continues to grow. Teikoku Data Bank, a credit research agency, said yesterday there were 1,257 corporate bankruptcies in November, up 5.2 per cent on the same month last year and the 10th monthly increase running.

Corporate casualties' liabilities of Y971bn ($9.6bn) last month bring total liabilities left by collapsed companies to just over Y7,960bn in the first 11 months of this year – a record. Cost-cutting by big companies continues to depress profits at their subcontractors, the backbone of the industrial economy.

William Dawkins, Tokyo

Loan companies under threat

The Japanese government may seek criminal charges against officials of the country's debt-ridden *jusen*, or housing-loan companies, and the delinquent borrowers, Prime Minister Tomiichi Murayama said yesterday. "The government will handle individual cases and disclose them to the public," he told a parliamentary budget committee, pledging more disclosure of housing-loan companies' bad loans before considering the use of public funds to cover the losses.

The announcement comes as tensions are heightening over the liquidation of the *jusen* and the method of dividing up the losses. Mr Murayama has promised to present a solution to the problem on December 20, but talks between the ministry of finance and agriculture ministry, which oversees the agricultural co-operatives with large amounts of outstanding loans to the companies, have so far failed to produce a bail-out scheme.

The banks are unhappy with the refusal by agricultural co-ops to share in the losses.

Emiko Terazono, Tokyo

■ China's consumer price index rose 11.2 per cent in November over the same month a year earlier, giving aggregate consumer price inflation of 17.7 per cent for the first 11 months, the Xinhua news agency said. *Reuter, Beijing*

■ Singapore's industrial output grew 10 per cent in October on a year-on-year basis, the Economic Development Board said. September growth was 11.9 per cent. *Reuter, Singapore*

■ Indonesia's central bank will raise the reserve requirement to 3 per cent from 2 per cent, from February 1. *Reuter, Jakarta*

NEWS: INTERNATIONAL

Uproar as Nigerians challenge regime

By Paul Adams in Lagos

Civilian politicians from throughout Nigeria challenged the military government's three-year transition programme at a national meeting in Lagos yesterday.

The meeting became rowdy when the man who inspired the forum, elderly ex-governor Mr Michael Ajasin, condemned the military government and called for the immediate release from detention of Chief Moshood Abiola and recognition that he was the winner of the presidential election annulled in 1993 by the army.

An attempt by one delegate to get endorsement of Mr Ajasin's proposals provoked uproar and a fight was started by intruders, who according to official organisers of the meeting had been sent by the government to cause disruption.

Mr Ajasin said that in one generation Nigeria had changed from the great black hope to a big black sheep and described the political crisis, the decline of the economy, the collapse of social services and the international isolation of Nigeria as intolerable.

Mr Ajasin proposed the creation of a committee of civilians to negotiate with the regime for an early end to army rule, not in 1997 as suggested by the Commonwealth but in 1996.

He also said there must be a code of conduct, a view backed by Mr Shehu Shagari, the last civilian president who was deposed by an army coup in 1983, in a speech read in his absence.

Finally, Mr Ajasin rejected the military's proposals for power rotation between six regions and said that Nigeria needed a truly federal structure giving autonomy to each region.

In October, Gen Sani Abacha, the regime's leader, pledged to lift the ban on party politics and to install a system of power rotation between six regions.

Although this first independent meeting of civilian leaders since Gen Abacha seized power two years ago exposed old divisions between the north and south of the country, the regime can expect opposition from civilian politicians at home, as well as condemnation of army rule from the international community.

There has been no official government comment on the meeting but Police Inspector General Ibrahim Coomasie, a member of the ruling council, said on Wednesday that politicians were free to meet after the announcement of the transition to civil rule programme.

The pressure to restore Africa's most populous nation to democracy has intensified since the hanging last month of nine minority-rights activists, including writer Mr Ken Saro-Wiwa.

Western nations have taken several measures, including an arms embargo and downgrading of their representation, while the Commonwealth has suspended Nigeria.

Yemen tries to defuse Saudi border tensions

By Robin Allen in Dubai

Yemen is to hold talks with Saudi Arabia in an effort to defuse tensions between the two nations after a renewed outbreak of border clashes last week.

Officials in Sanaa, the Yemeni capital, said Sheikh Abdullah Al Ahmar, Yemen's parliamentary speaker, would visit Saudi Arabia tomorrow for discussions with Prince Sultan Bin Abdul-Aziz, the Saudi defence minister.

The Yemeni government said there had been clashes near Al-Kharakhir, 100 km west of the Yemen-Oman-Saudi border in the northern part of the Mahrah area in territory claimed by Yemen. A Yemeni official said three Saudi infantry and armoured brigades had moved into the border area with Yemen at the weekend.

Western oil companies have concessions all along the undemarcated Saudi-Yemen border, but most have stopped operations pending a lasting settlement of the dispute.

Tension rose in Sanaa following the renewed fighting, less than a year after the country signed a memorandum of understanding with the Saudis to solve the 61-year-old dispute.

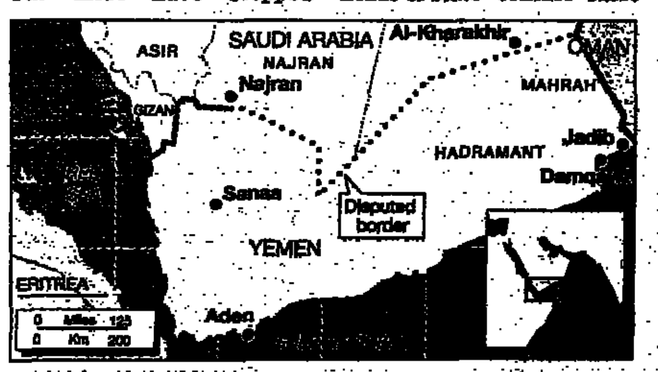
The memorandum, signed in February, reconfirmed the existing demarcated border from the Red Sea 300 km inland to Jebel Thar near the Saudi town of Najran; and established a Saudi-Yemen group to define the remaining 1,500 km of undemarcated border up to their joint frontier with Oman. It also allowed for the establishment of a joint military committee whose job is to avert and, if necessary, control military incidents along the border.

Relations between the two appeared to have improved since the agreement and President Ali Abdullah Saleh's "reconciliation" visit to King Fahd last June. This was the first heads-of-state contact since Yemen incurred Saudi wrath in August 1990 by refusing to support UN sanctions on Iraq in the aftermath of its invasion of Kuwait. Relations were further soured last year following accusations by northern Yemeni officials that Saudi Arabia was backing the south in Yemen's civil war.

Yemeni concern is heightened by what officials discern to be Saudi Arabia's motive behind last week's border incident. According to an official in Sanaa, Yemen has agreed to discuss an extension of the Saudi oil pipeline system across Yemeni territory to the Indian Ocean on a basis similar to other countries such as Turkey and Syria which allow pipelines to the Mediterranean.

"The government is willing to talk in terms of leasing a pipeline to the Saudis so they can avoid the bottlenecks of the Bab al Mandab strait (at the entrance to the Red Sea) and the Strait of Hormuz (at the entrance to the Gulf). But "the Saudis are not content with that. They have proposed a perpetual lease amounting to sovereignty over a 30-mile wide corridor on Yemeni territory running the full length of the Yemen-Oman border." Yemen, the official said, "is not interested in talking about leasing its territory."

The black market rate of the Yemeni riyal fell to YR125 to the US dollar after the border clash, from YR115 last month. The official rate is YR50 to the dollar.



Palestinian detainees are marched into an Israeli police station after clashes with troops in Bethlehem. Israeli occupation of Christ's birthplace will end on Monday Reuter

Pope 'backing for Israel'

By David Gardner in London and Robert Graham in Rome

Pope John Paul said yesterday he recognised Jerusalem's "double role" as capital of Israel and home to the three great monotheistic faiths – Christianity, Islam and Judaism – according to Mrs Leah Rabin, widow of Mr Yitzhak Rabin, the Israeli prime minister assassinated last month.

The remarks, if confirmed, would amount to a propaganda coup for Israel, whose government insists it will keep all of Jerusalem, including the Arab east occupied in 1967 and subsequently annexed, as the capital of the Jewish state.

The Pope "said Jerusalem has a double role. It is the capital of Israel and it's the capital of the three faiths," Mrs Rabin said after an audience with the Roman Catholic leader. "It was clearly said; I understand that the Vatican may have a problem with a statement like this," she added.

Negotiations on the future of Jerusalem are due to start between Israel and the Palestinians in May, as part of the accords on Palestinian self-government in the Israeli-occupied West Bank and Gaza. But Israel's new prime minister, Mr Shimon Peres, last month made clear that the question of Israeli sovereignty over the whole city was "politically closed" but "religiously open".

Israel's strategy is to seek a quasi-Vatican status for the holy city, keeping sovereignty but at the same time securing international endorsement for Jerusalem as a shrine open to all religions. The remarks Mrs Rabin attributes to the Pope square exactly with what Israel wants.

INTERNATIONAL NEWS DIGEST

Japan to send troops to Golan

Japan is due today to approve the dispatch of troops on a United Nations peacekeeping mission to the Golan Heights, the first Japanese military involvement in the Middle East.

The agreement, finalised by a security panel yesterday for today's cabinet meeting, ends nearly a year's debate over whether to send such a mission. Foreign ministry officials feared that uncertainty risked hampering Japan's attempts to take a stronger role in assisting stability in the Middle East, source of three quarters of its oil imports.

Japan will send 111 lightly armed men to join the UN Disengagement Observers' Force, to replace a Canadian team, on January 15 and stay until the end of next August.

The main point of controversy between the three members of Japan's coalition government of conservatives and socialists was over what kind of arms the men should carry, consistent with the rules of a pacifist constitution. In the end, the coalition agreed to follow the existing Canadian team's example and permit small arms for self defence; a pistol for each serviceman and two light machine guns between them. *William Dawkins, Tokyo*

Syria frees Islamic militants

Syria has freed 1,200 members and supporters of the banned Moslem Brotherhood group over the last 10 days, political sources in Damascus said yesterday. The prisoners were freed following an amnesty declared by Syrian President Hafez al-Assad to commemorate the 25th anniversary of the coup that brought him to power. It was the biggest release of political prisoners connected to the militant Moslem Brotherhood, which is banned in Syria, since the government crushed an uprising led by the group in 1982.

The sources said the amnesty also allowed Moslem Brotherhood leaders who have been in exile to return to Syria. A report in pan-Arab daily Al Hayat this week said Sheikh Abdelfattah Abu-Ghudda, the former leader of the Syrian brotherhood, returned to Damascus on Tuesday after 16 years in exile. Presidential spokesman Joubran Kourieh said Mr Assad had sent an amnesty law to parliament yesterday which should lead to the freeing of scores more prisoners. There was no word yet on the number that could be freed and it was not clear if they would also be members of the Moslem Brotherhood. *Reuter, Damascus*

Moslem leader is 'released'

Mr Abdelsalam Yassine, Morocco's most prominent Islamist leader, is no longer under house arrest, members of his movement, Al Adl wal Ihsan (Justice and Charity), said yesterday. Mr Fathallah Arsalan, a member of the executive council of Morocco's largest Islamist grouping, said he was allowed to visit Mr Yassine late on Wednesday for the first time in six years.

Policemen continue to guard the house in Sale, near Rabat, he said, but are no longer barring visitors.

The move, which Moroccan sources say follows a palace decision, comes at a time of increasingly open debate about human rights and highlights King Hassan II's policy of tolerance towards an Islamist movement that has been gaining adherents this year among university students. Morocco's Islamists – most of them organised in four different movements – are officially barred from setting up parties, denied legal status as associations and kept under a close watch.

But they are allowed to gather, arrange social events, publish newspapers and preach a stricter adherence to Islamic values. None of the groups advocates violence. *Roula Khalaf*

NEWS: UK

Phone number ruling boost for telecoms competition

By Alan Cane

Britain's Monopolies and Mergers Commission yesterday demolished a major barrier to increased competition in the UK telecommunications market when it ruled that customers would be able to retain their telephone numbers when changing operators.

The decision also sent a clear signal to British Telecommunications, the UK's dominant telecoms operator, that the commission broadly supports the measures being advanced by Mr Don Cruickshank, the industry regulator, to promote competition.

The MMC ruling settled a dispute between BT and the regulator by setting out a framework for how the costs of number portability should be split between rival companies.

It said BT should bear 70 per cent of the costs, the lion's share, against 30 per cent for the new operator over the next five years. According to Mr Cruickshank, BT's best offer would have resulted in a 15:85 split in its favour.

BT and Mr Cruickshank have been at odds in recent months over several regulatory proposals. When they are unable to agree on a particular measure, it must be referred to the MMC.

Mr Cruickshank referred the question of number portability to the MMC in April this year after BT refused to accept an amendment to its operating licence. This would have allowed the regulator to decide who should pay the cost of switching numbers.

The question of costs, rather than portability itself, which is universally seen as desirable, is the first contentious telecoms tissue on which the MMC has been asked to rule. It was seen as a litmus test of the MMC's attitude to Mr Cruickshank's efforts to reform the regulatory regime. Yesterday, observers said the ruling was a victory for Mr Cruickshank.

The ruling is of critical importance to cable television operators, which are allowed to offer both television and telephone services over their networks.

They have complained that the lack of number portability has been the biggest single obstacle to winning subscribers away from BT.

Mr Richard Woollam, director general of the Cable Communications Association, which represents the UK's more than 30 cable companies, said it was: "A major victory for cable and for consumers".

One cable operator said the MMC had "rapped BT's knuckles. If BT had seen sense a year ago, this would not have been necessary".

Mr Cruickshank said yesterday it was a good day for telephone customers. He expected portability would generally be available in the spring of next year. BT and several cable companies have been carrying out technical trials to test portability procedures.

BT said welcomed the MMC's "well balanced, reasonable terms." It believed that as a result of the ruling it would be up to £60m better off.

BT said that under Mr Cruickshank's original plan, it would have had to pay the entire costs of portability.

Legal action considered over 'mad cow' rules

By Deborah Hargreaves

The British government is considering prosecuting three slaughter houses which failed to comply with regulations on removing the spinal cord from beef carcases because of bovine spongiform encephalopathy, widely known as "mad cow" disease.

If the plants are prosecuted by the Ministry of Agriculture, they could face stiff fines.

Under rules introduced in 1989, the spinal chord must be removed from cattle carcases and destroyed because it can carry BSE.

"We are taking a very robust line with plants that fail to meet these regulations," said Mr Johnston McNeill, chief executive of the Meat Hygiene Service, the government agency responsible for slaughter houses.

Mr McNeill said the agency had stepped up the number of inspections it carries out on animals before and after slaughter.

Inspectors recently found that 17 abattoirs had failed to remove the spinal chord properly which led to the government tightening the rules.

The use of the entire bovine vertebral column – which includes the spinal chord – has now been banned in all meat products.

The government yesterday reiterated its reassurances to the public about the safety of eating British beef. "British beef has never been safer than in December 1995," said Professor John Pattison, who heads the government's spongiform encephalopathy advisory committee.

The committee, which monitors BSE and the human equivalent Creutzfeldt-Jakob disease, announced it was appointing four new members yesterday to broaden the expertise available to it. Prof Pattison said it was difficult to acquire evidence fast enough to prove the lack of a link between BSE and CJD because of the long incubation periods for both diseases.

Some consumers are turning away from beef because of fears over BSE, according to the Meat and Livestock Commission, the industry's promotional body. But prices have begun to stabilise after big falls last week as some farmers kept cattle back from auction until the price improves.

Mr Ian Smethers, livestock auctioneer at Midland Mart, Banbury, says he sold 500 bullocks yesterday which is a lower rate than usual, but prices improved by about 5 per cent after dropping by 10 per cent last week.

"Last week, it was very depressing talking to people here, but today farmers went out with half a smile on their faces," he said.

Siemens plant marks expansive ideas

By Paul Taylor

The construction of Siemens' new £1.1bn ($1.68bn) chip plant in north-east England is part of an expansion programme being undertaken by the German electronics group, designed to capitalise on the dramatic turnaround in its semiconductor operations.

Today's cornerstone laying ceremony at Siemens' new Tyneside site, attended by Mr Michael Heseltine, the UK's deputy prime minister, and top executives of the company, underlines the remarkable speed with which a project of such complexity is being driven forward.

Those involved with building the facility are committed to completing construction of the first production module on November 4, 1996. Equipment will then be installed so microchip production can begin by mid-1997.

Siemens has had a long association with semiconductors. In the late 1980s it faced competition from the Far East, leading to a string of heavy losses for its semiconductor operations, part of its components division.

But in recent years Siemens' semiconductor group has staged a remarkable turnaround, posting its first profits in 1993-94 helped by strong demand and a successful restructuring operation.

Semiconductor sales have more than doubled in the last two years to DM4.2bn (£1.91bn) and the group is now the most profitable part of Siemens' business, generating Dm800m of earnings in the year ended September 30.

Field of dreams: Siemens' Heinrich Hamann on the site which will become the world's most advanced semiconductor plant

Mr Jürgen Knorr, head of the semiconductor group, says he is determined to double sales again by the end of the decade.

International business outside Germany accounts for more than 60 per cent of sales which cover a broad spectrum of products including about 3,000 different semiconductors and 2,500 integrated circuits or chips, together with opto-electronic components such as light-emitting diodes.

Since the restructuring, the group, which employs over 13,000 people in eight plants worldwide, has focused on the telecommunications, data processing, automotive, industrial and consumer electronics and smartcard markets.

The Tyneside facility will produce application specific integrated circuits (Asics) - electronic devices which are used in a wide range of products including mobile telephones, cameras and cars.

The plant is part of a DM3bn investment programme sanctioned by Siemens' board in the summer which also includes investing an additional DM500m in Siemens' main power semiconductor manufacturing facility in Villach, Austria.

In addition, the group already supplies three generations of memory chips to its internal and external customers. One and 4Mb memory chips are manufactured in Regensburg, Germany, while 16Mb chips are produced jointly with International Business Machines in France.

Meanwhile, as part of its efforts to become a large producer of computer memory chips, the group has spent DM2.7bn on the construction of a microelectronics centre in Dresden which will provide 1,500 engineering jobs and will eventually produce the 256-megabit memory chips jointly developed by Siemens with IBM and Toshiba.

Partnerships such as these have been a key part of Siemens' semiconductor strategy and have helped the German group close the technology gap with its Far East rivals, particularly those in Korea. "We have reduced the gap significantly," says Mr Knorr.

Underscoring its renewed confidence Siemens confirmed in October that it will work with IBM Toshiba and Motorola, a new partner, to develop future generations of highly advanced semiconductor chips including a 1 Gigabit device capable of storing 100,000 double-spaced pages of typewritten text.

Mr Knorr says the next step is to go for growth, and Tyneside is part of that plan. With the world semiconductor market estimated to be worth at least $180bn by the end of the decade, there is still plenty of room for growth.

Eau de mulled wine in store

By Daniel Green

Shoppers from London to Lancashire should notice a hint of mulled wine in the air when they next step through the doors of their local Woolworth's.

But the retailer does not sell alcohol. The smell is the result of Woolworth's decision to fill 20 of its stores with "a seasonal aroma to enhance the festive season".

The winner of the contract to provide the smell was BOC Group, the UK's biggest industrial gases manufacturer and supplier of helium for Woolworth's Christmas balloons.

For Woolworth, the mulled wine smells are the olfactory equivalent of tinsel and holly – part of the drive to be more imaginative in point-of-sales marketing. But BOC's gases engineers are celebrating the commercial breakthrough of a technology that it hopes will create a new market.

By putting deodorants into the system BOC wants improve the atmosphere in the dankest of pubs and clubs. Also on offer are the odours of freshly baked bread or Christmas trees and sandalwood. The smoking gun smell might appeal to video games manufacturers. There is even a non-specific "clean smell" which is being tested in the foyer of a multiplex cinema somewhere in England.

The secret of the technology is that the fragrances are first dissolved in liquid carbon dioxide.

The solution can be stored in ordinary gas cylinders and connected to the air conditioning system with a patented "aroma dispenser".

The release of the gas, for a few seconds each hour, is controlled by a timer.

The technical breakthrough made by BOC engineers was to find off-the-shelf fragrances from speciality chemicals manufacturers that would dissolve in liquid carbon dioxide.

Normally, manufacturers dissolve their fragrances only in water, alcohol or wax.

EU court attacks sex-change discrimination

By Andrew Bolger and George Parker

A British school worker who had a sex change and was dismissed yesterday received preliminary support from the European Court of Justice.

The transsexual was a man when hired by a Cornish school, but was fired soon after announcing the intention to change sex.

The Luxembourg court is being asked to rule that the change of attitude of the school after the news was revealed amounts to a breach of the 1976 European equal opportunities directive, which guarantees men and women equal treatment at work.

Yesterday the court's advocate-general delivered an interim "opinion" that the directive applies to transsexuals, or to people who are male and female at the same time. The opinion is not binding, but the full court normally follows the advocate-general's lead.

The anonymous applicant, known only as "P", said she was treated better when she was a man than when she was a woman. But the school insisted "P" was sacked for the fact of having a sex change, not because attitudes changed along with her gender.

"P" said that if she was covered by the directive while she was a male and covered now that she was a female, then she should also have been covered while making the transition from one sex to the other – a claim upheld by the advocate-general. His opinion said the directive should be used in accordance with changing sexual attitudes and habits.

"The phenomenon of transsexuality, even though it is not of great significance in statistical terms, constitutes a reality today which has been discussed in various bodies, not only scientific but also legal, in particular from the point of view of fundamental personal rights," he said.

"Consequently, the law is faced with that reality and is destined to come up against it to an increasing degree."

The advocate-general said: "To my mind, the law cannot cut itself off from society as it actually is and must not fail to adjust to it as quickly as possible."

The ruling provoked renewed anger among Conservative Euro-sceptic MPs, who said it was a reminder of the need for the UK to resist moves towards further European integration.

Mr Bernard Jenkin, MP for Colchester North, said: "I think education authorities should be able to decide who they employ for the benefit of children, but with the European legal system as it is, we are stuck with this type of interference."

The Ministry of Defence said the opinion had no bearing on its ban on homosexuals serving in the armed forces. However, a ruling by the European Court in favour of the transsexual would increase pressure on the MoD to change its policy, which is being reviewed by senior officers.

In the High Court earlier this year Lord Justice Brown said the "tide of history" was against the MoD and predicted that the policy would eventually collapse, but said it was for parliament to change the law.

Brixton counts the cost of £1m damage after demonstration turns to violence and looting

'Thugs and criminals' blamed for London riots

By Stewart Dalby and Lisa Wood

British home secretary Mr Michael Howard said yesterday that the disturbances in Brixton, south London, on Wednesday night, which are thought to have caused more than £1m ($1.53m) worth of damage, bore no comparison to protracted inner city riots in 1981 and 1985.

Metropolitan police chiefs blamed the latest unrest on a "small minority of thugs and criminals" who took advantage of a legal and peaceful demonstration to commit acts of looting and violence. The earlier riots are considered to have arisen in part from part from from racial tensions and deprivation in ethnically mixed Brixton.

Mr Howard, who visited the area yesterday, said community leaders were angry about what happened. "They have been building a new Brixton, a better Brixton and one that gives more opportunities and more hope for its residents."

However, other government ministers are about to consider a report which claims that increasing numbers of young people will be marginalised and grow more disaffected unless new national strategies are developed and more funding for programmes to meet their needs are found.

The unpublished report, funded by the Department for Education and Employment, was undertaken on behalf of Training and Enterprise Councils, which administer government-funded training.

The report, which expresses particular concern about unemployment among young blacks, estimates that more than 100,000 young people between 18-20 years old have withdrawn from education, training and employment. Many lacked either "competence, confidence or experience" or all three.

Of the Brixton violence, Sir Paul Condon, metropolitan police commissioner, said yesterday: "I am convinced this was the work of a small minority bent on criminal acts. The majority of law abiding citizens did not riot. This is a setback for Brixton after all the good work that has gone into better policing and a partnership with the local community. But it is only a setback."

Three policemen were injured, the worst being an officer who had his collarbone broken when he was dragged from his motorcycle and beaten by the mob. He was saved by a motorist who drove into the crowd. There were nine civilian injuries, 22 arrests and 50 business premises damaged, including three pubs. Three stores were completely burned out.

Mr Paul Manning, assistant police commissioner, "absolutely refuted" the claim that police overreacted. They only donned riot gear after the rioting started, he said, while Mr Jim Dickson, leader of the Labour group in Lambeth borough council, said: "There was obviously a lot of opportunistic looting."

Sir Paul said he was concerned at the inflammatory nature of the speeches made at the demonstration. An inquiry will look at any criminal proceedings which could arise from these speeches.

The disturbances started when a small demonstration of about 100 people broke through a police cordon and started to rampage through the high street.

The demonstration had been called to protest the death in police custody of Mr Wayne Douglas on December 5.

Sir Paul Condon said Mr Douglas, the second black man to die in custody in the area in the past six months, was wanted on criminal charges. Sir Paul said that when he was apprehended by police on suspicion of an aggravated robbery at knifepoint, he violently resisted arrest and was subdued using long batons, issued to police last year.

Sir Paul said he did not want to anticipate the findings of an inquiry by the independent Police Complaints Authority but the available evidence suggested Mr Douglas died of a heart condition.

Unemployment among young blacks in the capital's inner-city areas is estimated at more than 50 per cent, and it is unlikely that rates in central Brixton are any different, Lisa Wood writes.

The unemployment rate for Greater London is 9.4 per cent.

Tensions in Brixton first ignited into riots, again after incidents involving the police, in 1981 and 1985. Damage in both riots, caused by looting and fire-bombing, was much more extensive than that on Wednesday. The Brixton riot in 1981 gave rise to an inquiry by Lord Scarman, whose recommendations have had a significant impact on policing in the capital.

The riots also drew attention to the problems of urban blight and were a contributory factor in the area receiving the highest allocation in the government's City Challenge programme last year. The award was made after intense lobbying by the local council which has made strenuous efforts in recent years to clean up a legacy of internal corruption.

Some £37.5m is being invested in the area over the next five years, of which nearly £20m has been spent mainly on infrastructure projects.

London has traditionally had lower unemployment than many other parts of the country, and as a result it has not developed as many high quality training providers as some areas of high unemployment.

A policeman in riot gear stands in front of a looted store during the disturbances in Brixton, south London, on Wednesday night

UK NEWS DIGEST

PM resists Tory Eurosceptics

Prime minister John Major is resisting pressure from Conservative Eurosceptics to produce a white paper on the UK's position on reform of the European Union's institutions before next year's intergovernmental conference.

His reluctance to spell out in detail the UK's negotiating position will come as a blow to the Tory party's Eurosceptic right, which last month believed it had won this concession from the government.

Mr Major will try to bring about a truce in his party's internal war over a single currency by stepping up his campaign to persuade fellow EU members of the risks if only a small minority of countries participate in monetary union in 1999. He will today urge his EU colleagues to launch a review of these risks, under the aegis of finance ministers, to be completed in a year.

On arrival in Madrid last night, Mr Major said he did "not yet believe" that the "implications of a small number of countries going ahead" with monetary union had been understood by his fellow government heads. He denied that his motive in raising these issues was to delay the 1999 start date of a single currency as some other European governments suspect. *Robert Peston, Political Editor, in Madrid*

Student loan plan shelved

The British government yesterday was forced to delay plans to privatise student loans until after the next election in the face of overwhelming apathy from banks and building societies.

Ministers had hoped to involve the private sector in handling student loans at the start of the next academic year, but they now accept the earliest possible starting date is October 1997.

Banks and building societies made clear to ministers that they had no interest in taking part in the scheme next year, particularly because of political uncertainty ahead of the election. There remains considerable doubt about whether they will be interested in taking part in 1997, even if the Conservatives win. *George Parker and Alison Smith*

Inflation eases to 3.1%

UK inflation fell in November for the second successive month to its lowest rate for almost a year, official figures showed yesterday.

The Central Statistical Office said the headline annual rate of inflation was 3.1 per cent last month – slightly lower than the 3.2 per cent recorded in October.

A decline in motoring costs – in particular a fall in second hand car prices – contributed most to the drop. But smaller rises than last year in the prices of food and household goods and sharp reductions in alcohol prices, as shops cut prices in the run-up to Christmas, also had an impact. *Graham Bowley, Economics Staff*

Eurostar union in pay call

The RMT, Britain's largest transport union, is asking its members employed by European Passenger Services, the British partner in the Eurostar train service between London, Paris and Brussels, to reject a deal being imposed by the company which would give a maximum pay rise of 2.5 per cent. Under the company's proposal, staff who joined before the end of April would receive a 2.5 per cent pay rise, those who joined between the beginning of May and the end of July would get 1.5 per cent and those who started work after that would get no rise. *Robert Taylor, Employment Editor*

JOHN KAY

Threats to Bill Gates and the Internet

As Bill Gates tries to come to terms with the Internet, we see one of the most unusual confrontations in business history. A standard that is owned by a single company meets a network that is owned by nobody at all.

Networks and standards are common across many businesses, especially those related to communications. The National Grid, sold this week to private investors, was a visionary product of the 1930s which enabled any electricity user in England and Wales to be supplied from any power station in the same territory. BT's network allows any caller in Britain to be connected to any other, and a link between its network and that of France Telecom allows any caller in Britain to be connected to anyone in France. So we have road networks, rail networks, networks of gas and oil pipelines.

Networks rarely thrive, or even come into existence, if they have more than a small number of owners. Networks depend on co-ordination and on agreed network protocols – protocols which are based on agreed technical specifications and accepted codes of behaviour. As the number of participants increases, the problems of holding all of them together multiply rapidly, and the apparent opportunities to gain competitive advantage by drifting away from the crowd becomes irresistible.

So there is no coach network to speak of; there are just too many operators. There is an airline network of sorts, but it works most effectively with the "hub and spoke" forms of operation, when a single airline controls most of the flights to or from one destination. And the still unresolved problem of rail privatisation is how to reconcile the advantages of network co-ordination under single ownership with the competitive benefits of allowing anyone who wants to, to run trains. The fewer the owners, the more effective the network.

This is not only true of technical networks. Social networks have the same characteristics. Without a tight central organisation to impose a common culture, they tend to fall apart.

Standards are different. Standards typically exist where one product must interact with another. A train needs a track. An individual who holds a credit card needs to meet a merchant who accepts it. Because both networks and standards require co-ordination, many networks have standards built into them. Most railways operate on a 4ft 8½ins gauge. We drive on the right (or left) hand side of the road. Air traffic controllers everywhere talk English (of a kind) to each other.

These examples illustrate a key commercial difference between a network and a standard. Networks which become dominant are owned by a small number of people: standards which become dominant are not owned by anyone. Standards become dominant through wide adoption and an important reason why they are widely adopted is that they are freely available. If Henry Ford had been able to patent driving on the right-hand side of the road, or if users of English had to pay a licence fee to the authors of the King James Bible, it is likely that we would drive on the left and speak French.

The classic battle between open and closed standards was fought in the video cassette market

Even those standards that are proprietary are widely used because the proprietor does not restrict or charge for their use. Take Philips' compact cassette, for example. The classic battle between open and closed standards was fought in the video cassette market. JVC's open licensing policy for its VHS standard meant there were soon many more users of VHS than of Sony's proprietary Betamax. So there was far more software for VHS. VHS increased its lead and the Betamax standard died.

Which brings us to the two exceptions from which we began. Microsoft dominates operating systems for personal computers, through MS-DOS and Windows. This is almost the only example, and certainly by far the most profitable example of a standard which is controlled by an individual company. Imagine owning exclusive rights to English, or to calculus, or being able to charge everyone who followed your advice to drive on the left-hand side of the road. You would be rich beyond the dreams of avarice. And Bill Gates is.

It was a curious chapter of accidents that brought this about. IBM established a standard in the personal computer market, as JVC had done for video recorders. And as for JVC, it happened because the standard was an open one, and probably would not have happened had the standard not been an open one. After all, despite Apple's outstanding innovations, their insistence on keeping their systems to themselves has restricted their products to enthusiasts. But royalties on the IBM operating system accrued to Microsoft. It was as though the British government and its army and navy had promoted the use of English around the world, but negligently left a monopoly of English dictionaries in the hands of Oxford University Press.

The Internet is the most successful example of a network which no one owns and controls. There was a different chapter of accidents here. The US government and its agencies created the basis for the network, and then simply abdicated control. It was as if BT had built a national telephone system, and then vanished from the scene.

So have the rules of the game changed? Can Microsoft maintain its dominance of the world computer market? Is there a long-term future for the Internet unless it falls into the hands of a small group of firms? The answer to both questions is probably not. The development of new information technologies is changing much of our lives. But it does not change the basic laws of business and economics.

Ericsson faces upheaval as it focuses more on the mobile phone market, writes **Christopher Brown-Humes**

People mover

You have a leading market position in one of the world's fastest growing industries. Yet while one part of the business booms, another is hit by intense competitive pressures. What do you do?

The answer according to Ericsson – the Swedish telecoms group striving to maintain its dominance in the world's mobile phone market – is to shift staff, resources and whole factories from one division to another.

In what must be one of the more ambitious reorganisation programmes of the moment, Ericsson is moving thousands of staff and at least three factories from its public telecoms unit – dealing mainly with fixed networks – to the radio division housing its mobile phone businesses. The aim is to make the public side leaner and more profitable – competition between customers there has been driving down prices – while ramping up volumes in the mobile operations where orders are growing rapidly.

Ericsson's recent nine-month results highlighted the split nature of the company's performance. While the group's mobile telephone sales rose 50 per cent, driving a broader 42 per cent rise in the radio division, the public telecommunications division grew by a relatively sluggish 11 per cent.

Underlining its confidence in the mobile side of the business Ericsson predicts there will be 350m cellular subscribers worldwide at the end of 2000, compared with 68m in mid-1995.

The intra-company migration is part of a broader upheaval which will affect as many as 30,000 people – nearly four in 10 of Ericsson's 83,000 staff – over the next three years. It will take place alongside a recruitment programme which has already added 8,000 jobs to the radio business in the last 12 months.

Nor should it be seen in isolation from the group's broader efforts to enhance its position as the world's leading manufacturer of mobile phone infrastructure (with a 40 per cent market share based on the number of subscribers hooked up to Ericsson systems) and the third largest producer of handsets. In October it successfully completed a SKr7.8bn (£700m) rights issue – the largest in Swedish corporate history – giving it extra muscle to take on some of its deep-pocketed competitors. And it maintains a research and development budget, which at 20 per cent of sales, is relatively much larger than its rivals.

Ericsson argues that moving staff, and not making them redundant, is not just a caring solution: it is also a sound business move.

"We could not have expanded the radio side as rapidly as we have done if we had not had the opportunity to reduce the public telecoms side," says Lars Ramqvist, Ericsson's chief executive. Building new facilities and training staff from scratch would have been much slower, he argues. The added advantage is that the group avoids the large redundancy costs facing some of its competitors.

But Ericsson acknowledges the process has been disruptive and that it cannot offer all the staff being cut from the public side a place in another part of the organisation. In the first phase of the overhaul, the public side is looking to cut 6,000 jobs, reducing levels to 24,000 employees by the end of next year. The pattern so far suggests at least half the total will switch to radio. Most of the jobs will be lost through efforts to increase the efficiency of the customer supply flow – the process initiated by the receipt of an order and completed with the payment of a bill.

Manufacturing and administration staff will be the main casualties. There will be some job cuts in product development, but that is because of a change in strategic thinking rather than because activity is being scaled back. Most of the public side's product development work is centred on broadband systems that will facilitate the convergence of data, voice and image at the heart of the multimedia revolution. But the multimedia market has taken off more slowly than Ericsson expected, hence its decision to collaborate with other companies, as shown by its recent link-up with Marconi. "We believe we can get a stronger and more complete broadband portfolio this way," says Anders Igel, head of Ericsson's public telecoms unit. The other element to the overhaul is a greater emphasis on outsourcing, which is expected to lead to the loss of around 2,200 jobs.

Igel says the restructuring affects Ericsson employees inside and outside Sweden. In Sweden, factories at Katrineholm, Nynäshamn and Visby are switching from the public to the radio side. Instead of manufacturing AXE systems and products – AXE is Ericsson's world-renowned digital switch – they will make base stations for mobile phone networks. The radio division has become established in southwest Stockholm to facilitate other staff transfers.

Overseas, the reorganisation is helped by the fact that the public and radio arms already share many of the same facilities. Once mobile operations account for more than 50 per cent of production, responsibility for these units is likely to pass to the radio side. Manufacturing capacity has already been switched between the two in Mexico. Units in Italy and Spain are facing some of the biggest changes, says Igel.

According to one estimate, the job reductions will slash the public telecoms division annual operating costs by up to SKr2.5bn, or 10 per cent. If so, it represents a big saving for what Igel insists are relatively modest restructuring costs. He says there have been few personnel relocations, modest retraining needs, and a limited requirement to change manufacturing equipment.

Igel emphasises that the changes are a sign of Ericsson's increased commitment to public telecoms. "The market for fixed public networks will grow 5-12 per cent annually. Our ambition is to grow twice as fast," he says. But he also puts the process in the context of the group's desire to concentrate on its core strengths in switching, networks and radio.

"There is a massive change in the competence requirement going on in this company," he says. "The result is that manufacturing and hardware are decreasing in size, while the emphasis on product development, software and systems is increasing."

Magnus Torle

Making the right moves: Ericsson's chief executive Lars Ramqvist

ARTS

'Manon' according to Henze

Andrew Clark on two youthful works by Germany's 'grand old man' of contemporary music

Hans Werner Henze will be 70 in July. Aldeburgh is planning a tribute, ENO promises the British stage premiere of *The Prince of Homburg* and the Berlin festival will mount a retrospective. The two most significant premieres will take place in Munich – a new orchestral work in July and an opera, *Venus und Adonis*, in January 1997.

As one of the most frequently-performed of living composers, Henze has no need of special pleading but there is scope for reassessment. To remind us that he was not always the grand old man of German contemporary music, two Swiss companies have chosen to explore the work of his youth, when Henze's creative fires were lighting up the post-war operatic landscape and offering a popular counterpoint to Boulezian orthodoxy.

Basle has just staged *Boulevard Solitude* (1952), Henze's taut modern setting of the Manon Lescaut story. Lausanne offered a French-language production of his literary opera *Elegy for Young Lovers* (1961). Both received persuasive performances, consolidating Henze's reputation as a modern German Romantic. But how well does the music stand up today?

In the case of *Boulevard Solitude*, there can be little doubt about its quality. After its premiere in Hanover, Henze was criticised for his "synthetic" use of Parisian music-hall, symphonic jazz and ballet. But the score has lasted well for the simple reason that Henze bends all these stylistic resources to his own dramatic needs and lyrical personality.

Listen to the playful inventiveness of Manon's music, sung in Basle by Morenike Fadayomi with deliciously creamy, airborne tone; or the Ravellian beauty of harp and offstage chorus to suggest Des Grieux's drugged-up delirium; or the brilliant brass crescendo before the prison scene. Thanks to the stylistic versatility of the Basle Radio Symphony Orchestra under Bernhard Kontarsky, the jazzy perorations never sounded anything other than pure Henze. How easy on the ear it all seems, how cinematically fluent, how naturally theatrical – and how different to the padding and self-parody of so many later works.

Even Henze's pigeon-holing of tonal and atonal music for the opera's different social settings is carried with virtuoso sleight of hand. The same cannot be said of the instrumental by-play in *Elegy*. The apportioning of specific instruments to each character in this hollow Alpine drama is at best an intellectual conceit, at worst a mechanical exercise – and the wittering coloratura music is an open invitation for Henze to note-spin.

Despite the lush Straussian duets and some wonderfully translucent ensemble writing, what stands out in *Elegy* is the music's aridity – as if composed with the same callous detachment with which Mittenhofer, the egocentric poet at the heart of the opera, views the world around him. The main problem is the wordy libretto by W.H. Auden and Chester Kallman – a case of aesthetic hedonism run mad. If *Elegy* were cut by a third, it would lose nothing and gain a lot more performances.

Gino Zampieri's Lausanne production, expertly conducted by Valentin Reymond, was unable to paper over the longueurs, partly because it was short on farce and irony. But it looked good. Jean-Claude Maret's period setting – a sloping panorama-platform overlooked by a forbidding Alpine peak – captured the atmosphere of bracing air and frigid emotion, before metamorphosing into a poetic snowstorm for the *Liebestod*.

The predominantly Anglo-Saxon cast, singing in a clear French translation, offered a true ensemble performance. As Mittenhofer's spinsterish secretary, Cynthia Buchan had a wickedly proprietorial air and a fine sense of comedy. Louisa Kennedy-Richardson coped well with the coloratura lines of Hilda Macke, the demented widow. Paul Nilon and Judith Graf were the fairy-tale lovers. The only disappointment was Glenville Hargreaves's soft-focus Mittenhofer.

For the lovers in *Boulevard Solitude*, Basle could not have chosen better than Fadayomi and Barry Ryan. Fadayomi's classy Manon was svelte and sensuous, suggesting a kinship with Lulu in her animal-like reactions to the world: small wonder Ryan's masculine but money-less Des Grieux could not keep up. Thomas Holzapfel made a slick and seedy Lescaut, while Christoph Homberger's Lilaque was a suitably ridiculous sugar-daddy, with just the right kind of reedy high tenor.

All were dressed in 1990s designer-wear – which rather undermined the point behind Manon's desertion of Des Grieux. The other mistake in Werner Düggelin's staging was his decision to replace the dancers prescribed by Henze with two silent mimes, one of them a dwarf, whose function was never explained. But these were minor flaws in an interpretation of unusual poise and imagination. Raimund Bauer's cool, clear, contemporary set incorporated several vivid metaphors – a set of books suspended like winged doves in the library scene, a gauze clock-face for the interludes. All in all, this confident performance suggested that Henze's innocent early output is still among his best.

Theatre

Sondheim's 'Company'

True, few contemporary artists express the spirit of our times so well as Stephen Sondheim – and yet that fact only makes our times seem worse. *Company*, the 1970 musical for which he wrote both music and lyrics and which now receives a new 25th-anniversary production at the Donmar Warehouse, is perhaps the first show in which he fully defined what we think of as "essence of Sondheim". Clever, original, satirical, sure; but also a repulsive mix of virulent cynicism and insidious sentimentality.

Sondheim seems to despise each of the varied clutch of characters he creates, and yet he still wants them to twang our heartstrings now and then. The musical concerns Bobby, an unmarried loner idly toying with the idea of marriage, and his married and/or divorced friends. None of the marriages are seriously happy, each of the individuals is less than splendid, and yet everyone else is much more seriously alive than the hollow Bobby.

Structurally, *Company* remains audacious; it switches from one couple or group to another in a non-narrative series of social variations on a non-theme. But there you are: Sondheim lavishes his originality into technique, not into characterisations. There is not a dull moment in *Company*, nor a generous one.

I belong to the generation that came to know Sondheim 18 years ago through the superb West End anthology *Side by Side by Sondheim*, a show which I adored and which included extensive material from *Company*. What I only later came to realise, however, was that *Side by Side* had given me a distillation of Sondheim so complete that every complete Sondheim musical I have seen since then has been a disappointment.

Company shows that Sondheim's talent would have been better suited to revue sketches, although Sam Mendes's production makes an impressive case for the show – which Sondheim, by the way, has recently revised and updated (Bobby has an answer-machine and takes cocaine). The cast is strong. Some of the singing, admittedly, should be yet more pointed in musical ping and in verbal utterance (*viz.* "You could drive a person crazy"). But everything is sophisticated, and the performances are on a scale that will work well should the production transfer to a larger theatre.

The role of Bobby is a problem, however. How to show the emptiness in Bobby's life and still succeed amid the more vital characters? Adrian Lester's method is to apply high technical gloss. Singing, he swells or diminishes sustained notes with rare control. In speech and song, he makes contrasting use of two or more vocal registers. He dances with real skill. Everything is intelligent. But this adds up to a picture not of Bobby's charming emptiness but of Lester's accomplished calculation. And it exposes the two most disagreeable aspects of his technique: his nasal, bleating head register, and his flashy plenitude of stiff arm gestures.

Sheila Gish has splendid moments as the thrice-married Joanne; "I am shocked, do you hear? Shocked," she announces with glacial calm. But the tough bitchiness of the role has already proved monotonous before "The Ladies Who Lunch", the big number she puts over with hard panache. Clive Rowe and Rebecca Front as Susan and Harry, Teddy Kempner and Liza Sadovy as David and Jenny are all very good. Sadovy is the cast's best vocalist, shaping the most exposed music of the show (the hymn "Bless this day") with tranquil assurance.

The outstanding performance, however, is that by Sophie Thompson – even though she makes the signal error of playing the Gentile Amy in a specifically Jewish accent. When Thompson is bad (e.g. Radio 4's recent *Jane Eyre*), she is horrid. In *Company*, however, she shows how very very good she is in making a neurotic role both absurd and blazingly alive. You laugh at her and are caught up by her at the same time.

Alastair Macaulay

At the Donmar Warehouse, London WC2, until March 2.

Sheila Gish: splendid moments as the thrice-married Joanne Alastair Muir

Concerts/**Antony Bye**

Christmas mood music

All bad poetry is sincere, thought Oscar Wilde. The same might be said of music, especially music which cries out to be addressed as much for the background against which it was composed as for its purely musical content.

The Georgian composer, Giya Kancheli, 60 this year and currently residing in Belgium, is undoubtedly sincere. As with the many other composers whose creativity was severely proscribed by the pre-*glasnost* Soviet regime we cannot but admire the passion and persistence with which his music attempts to endorse some fast disappearing human values. Like Górecki, Pärt and Tavener, whose music it occasionally resembles, Kancheli aspires to tap into our dormant spirituality, to reveal glimpses of the numinous within our brutal, ugly modern world.

But is Kancheli's music strong enough to bear the burden of its heavy emotional agenda? On Sunday, at the Queen Elizabeth Hall, the London Sinfonietta gave us ample opportunity to judge for ourselves by presenting his evening-long *Life Without Christmas*, a cycle of four meditations, "Morning Prayers, Daytime Prayers, Evening Prayers and Night Prayers", for varying chamber forces. If the overall title is teasingly ambiguous, this was hardly amplified by the music which, whilst often often beautiful and perplexing, sounds – to my European ears, at least – simply naive.

"Morning Prayers" provides all the basic ingredients. Like Górecki's infamous Third Symphony, it rests on a gently undulating wall of string sound against which various instrumental contributions – in this case from alto flute and piano – are set into relief. Disruptive episodes, trills and clusters, which become more and more brutal, provide the contrast, before a tinselly, musical box conclusion. The prayer itself is intoned at the beginning and end by a tape-recorded boy soprano and organ. More like life *with* Christmas, this.

"Daytime Prayers" varies this scheme with a different instrumental line up, and some earsplitting outbursts from brass, percussion and screaming clarinet, before the unprovoked arrival onto the platform of the boy soprano himself to intone the final prayer. In "Evening Prayers", the shortest of the four, eight altos are added to the familiar brew to contribute to a climax of Puccinian refulgence. With the final "Night Prayers", originally written for the Kronos Quartet, we are firmly in Gorecki-land, seduced by a lush bed of string sound and an imploring soprano saxophone.

This is undemanding mood music, which the London Sinfonietta presented with admirable patience. But for all its commitment to presenting a broad range of new music one has to question its decision to devote one of its precious few concerts these days to music which, with aggressive and imaginative marketing, would sit easily in a more mainstream ensemble or orchestra.

Perhaps it should emulate the Cambridge New Music Players who at their concert on Thursday at The Place presented an attractive mixed programme embracing a modern classic – Ligeti's Chamber Concerto – alongside more recent pieces – Howard Skempton's delightful recent Chamber Concerto, works by the talented young British composers, Edward Dudley Hughes and Luke Stoneham, as well as the obligatory dose of post-modernist excess (John Adams' bloated Chamber Symphony). All were works of undoubted sincerity and some of them were also rather good.

Opera in concert/**Richard Fairman**

A mid-winter 'Dream'

What more seasonal fare could there be as Christmas approaches than *A Midsummer Night's Dream* – a matinee concert performance of Britten's opera in the depths of winter and in the middle of the afternoon. It is nice to know that there is somebody at the Barbican with a sense of humour.

For their part, they would doubtless answer that a recording was involved and the record company chose the date. That is invariably why operas turn up in the concert-hall these days (Simon Rattle's *Così fan tutte* the week before last was another case in point). For the audience at the live event it means a cast of singers that would snap the purse-strings at the the average opera-house and also – more important – a chance for the orchestra to share the spotlight.

There is a huge change to the balance when an opera orchestra is let out of the confines of the pit. Released into the open acoustic of the Barbican on Sunday afternoon, Britten's orchestration glittered as never before. The prelude to the second act, to name only one example, revealed precise sounds usually half-glimpsed: muted brass like shadows, harps glinting in the moonlight, low strings circling mysteriously like a nocturnal mist.

The London Symphony Orchestra played for Britten's own recording 30 years ago and looks set at least to equal its achievement in the project this time. Colin Davis made the fairies' music trip as lightly as Mendelssohn (the hero of the performance was the LSO's first trumpet, Maurice Murphy, whose many solos darted with elfin lightness) and did his best to help out the singers, though that was a problem with no easy solution.

Even in the theatre the mortal lovers tend to have trouble getting their portion of Shakespeare across and this quartet of young singers – Janice Watson and Paul Whelan, Ruby Philogene and John Mark Ainsley – experienced extra difficulties face to face with the orchestra, though their singing was of uniformly high quality.

It was a young cast all round, with Elizabeth Futral a glamorous Tytania and Brian Asawa fresh-voiced as Oberon (but less domineering than James Bowman, less otherworldly than Michael Chance). Two Covent Garden stalwarts, Robert Lloyd enjoying himself as Bottom and Gwynne Howell as Quince, led the mechanicals and just managed to stop Ian Bostridge's gangly Flute from upstaging them. All of them should hold their own with ease on the recording.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Nieuw Sinfonietta Amsterdam: with conductor Lev Markiz, pianist Boris Berman and bass Lieuwe Visser, perform works by Mozart and Schoenberg; 11am; Dec 17

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal
Tel: 49-30-254880
● Berliner Symphoniker: with conductor Alun Francis and pianist Fazil Say perform works by Saint-Saëns and Brahms; 8pm; Dec 16

■ BIRMINGHAM

CONCERT
Symphony Hall
Tel: 44-121-2123333
● Christmas Gala Concert: organized by The Daily Telegraph. The London Concert Orchestra and the Brass Ensemble from the band of the Welsh Guards, with conductor David Arnold, soprano Adele Paxton and tenor Julian Gavin perform works by Humperdinck, Anderson, Puccini, Rimsky-Korsakov, Johann Strauss and Tchaikovsky. The evening is presented by Frank Bough; 7.30pm; Dec 16

■ COPENHAGEN

DANCE
Det Kongelige Teater
Tel: 45-33 14 10 02
● The Triumph of Death: a choreography by Flemming Flindt after Ionesco's play "Jeux de Massacre" to music by Thomas Koppel. This musical drama is performed by the Royal Danish Ballet; 8pm; Dec 16, 20, 30

■ DETROIT

CONCERT
Detroit Orchestra Hall
Tel: 1-313-833-3362
● Christmas Pops with Skitch Henderson: radio broadcast host, television band leader, composer, conductor and present leader of the New York Pops Skitch Henderson leads the Detroit Symphony Orchestra in a special holiday programme; 3pm; Dec 17

■ DUSSELDORF

THEATRE
Düsseldorfer Schauspielhaus
Tel: 49-211-36870
● Im Dickicht der Städte: by Brecht. Directed by Roberto Ciulli and performed by Theater an der Ruhr, in German and Turkish. The cast includes Nihat Ileri, Thorsten Krohn, Klaus Herzog and Christine Dorner; 7.30pm; Dec 18

■ FRANKFURT

OPERA & OPERETTA
Städtische Bühnen - Oper, Ballett, Theater Tel: 49-69-2123744
● Samson et Dalila: by Saint-Saëns. Conducted by Sylvain Cambreling and performed by the Oper Frankfurt. Soloists include Margit Neubauer, Hubert Delamboye and Philippe Rouillon; 8pm; Dec 17, 20

■ GLASGOW

CONCERT
Glasgow Royal Concert Hall
Tel: 44-141-3326833
● The Phil's Christmas Cracker: The City of Glasgow Philharmonic Orchestra and Chorus conducted by Iain Sutherland perform a broad programme of Christmas music; 3pm & 7.30pm; Dec 17

■ HAMBURG

CONCERT
Musikhalle Tel: 49-40-346920
● Hamburger Symphoniker: with conductor Miguel Gomez-Martinez and pianist Beate Berthold perform works by Beethoven; 7pm; Dec 16, 17

■ LEIPZIG

CONCERT
Gewandhaus zu Leipzig
Tel: 49-341-12700
● Gewandhaus-Quartett: perform string quartets by Beethoven on the occasion of the 225th anniversary of the birth of Ludwig von Beethoven; 8pm; Dec 17

OPERA & OPERETTA
Oper Leipzig Tel: 49-341-1261261
● Die Fledermaus: by J. Strauss. Conducted by Martin Sieghard and performed by the Gewandhaus orchester and the Oper Leipzig. Soloists include Johannes Martin Kränzle and Margaret Chalker; 7pm; Dec 16

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● Messiah: by Handel. Performed by the City of London Sinfonia conducted by Richard Hickox, with soprano Catherine Pierard, mezzo-soprano Pamela Helen Stephenson, tenor Lynton Atkinson and bass Paul Whelan; 7pm; Dec 16
Purcell Room Tel: 44-171-9604242
● Gillian Humphreys' Winter Serenade: soprano Gillian Humphreys and violinist Andrew Haveron with the Waverley String Quartet perform works by Vivaldi, Purcell, Johann Strauss and Paul McCartney. The evening's special guest is actor and singer Howard Samuels; 7.30pm; Dec 17
Royal Albert Hall
Tel: 44-171-5823861
● Messiah: by Handel. Performed by the BBC Concert Orchestra with conductor Paul Leddington Wright, soprano Susan Roberts, mezzo-soprano Kathleen McKellar Ferguson, tenor Richard Coxon and baritone Riccardo Simonetti; 7.30pm; Dec 16
Royal Festival Hall
Tel: 44-171-9604242
● Christmas Fantasia: performed by the The London Philharmonic and The London Philharmonic Choir with conductor Bramwell Tovey; 3.15pm; Dec 17

■ LUXEMBOURG

EXHIBITION
Musée National d'Histoire et d'Art
Tel: 352-4793301
● Empreintes du Passé: this exhibition is part of the "Cultural City of Europe '95" events and provides an insight into 20 years of archeological research in the grand duchy of Luxembourg from the prehistory to the Middle Ages; from Dec 16 to Mar 17

■ MADRID

CONCERT
Auditorio Nacional de Música
Tel: 34-1-3370100
● Warsaw Philharmonic Orchestra: conducted by Kazimierz Kord with pianist Christian Zacharias perform works by Tchaikovsky and Chopin; 7.30pm; Dec 17

■ MUNICH

DANCE
Nationaltheater
Tel: 49-89-21851920
● La Fille mal gardée: by Ferdinand Hérold and John Lanchbery. Choreography by André Ashton, performed by the Bayerisches Staatsballett. Soloists include Tina-Kay Bohnstedt and Oleg Makhov; 7.30pm; Dec 16

■ NEW YORK

JAZZ & BLUES
Alice Tully Hall
Tel: 1-212-875-5050
● We'll take Manhattan!: performed by the Center Jazz Orchestra, conducted by Wynton Marsalis, with bassist Christian McBride, saxophonist Joe Lovano and pianist Stephen Scott; 8pm; Dec 16

■ OXFORD

CONCERT
Sheldonian Theatre
Tel: 44-1865-726753
● In dulci jubilo: The Wallace Collection and the BBC Singers, conducted by Stephen Cleobury, in a programme featuring a mixture of motets from the Renaissance and early baroque periods, traditional Christmas settings for choir and some arrangements for brass; 7.30pm; Dec 16

■ ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Borodin Quartet: conducted by Jiri Belohlavek perform works by Smetana, Martinů and Dvorák; 7pm; Dec 16, 17 (5.30pm), 18 (9pm), 19 (7.30pm)

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Wiener Kammerorchester: conducted by Sándor Végh, with violinist Erich Höbarth and soprano Eva Mei perform works by Haydn and Beethoven; 7.30pm; Dec 16, 17
Musikverein Tel: 43-1-5058681
● Cello-Soirée: violoncellists perform works by Vivaldi, Haydn, Bach, Popper, Mainardi and Offenbach; 7.30pm; Dec 16

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Financial Times Business Tonight

Philip Stephens

Beyond Emu

Pro-Europeans need a strategy to protect the Franco-German alliance if France cannot meet the conditions for monetary union

It is time for those who like to call themselves good Europeans to face some harsh truths. If the citizens of the European Union notice it at all, they will view the Madrid summit with supreme indifference or quiet contempt. Their leaders may be vexed by the choice of a name for a single currency. But, save perhaps for a few leftwing intellectuals on the streets of Paris and a handful of rightwing Tories in the House of Commons, the Maastricht criteria for economic and monetary union find no place in the preoccupations of the people. Their concerns lie with a faltering economic recovery, with the permanent insecurity which comes with global competition, and with widening cracks in Europe's welfare systems.

The post-Maastricht promise to bring the EU closer to its citizens has been broken. It is not, as too commonly supposed in Britain, the fault of the bureaucrats of Brussels. In so far as it was given a mandate by its political masters, the European Commission has fulfilled it.

It produces fewer intrusive directives and instead promotes more serious research on the competitive challenges which will decide Europe's living standards for decades ahead. Sure, the Commission has its federalist dreamers. It always will. But governments must shoulder the blame for the ever more dangerous dislocation between leader and citizen. Those who believe that Europe must be more than a collection of nation states should be worried.

I am conscious as I write that many among my pro-European friends regard such sentiments as heresy. The Eurosceptics are already gloating on the sidelines. To admit that the blueprint agreed at Maastricht four years ago might have been over-ambitious would be to give more succour to the Thatchers, Tebbits and Lamonts. Better to trust that Helmut Kohl will outwit the Bundesbank, and Jacques Chirac the French trade unions. Without a single currency, one prominent British Europhile told me recently, the whole enterprise will fracture.

As things stand, there is truth in that judgment. But what an indictment of those who promote the European cause. There are other projects worthy of the attention of Messrs Kohl and Chirac, González and Dini.

Bosnia could hardly be a more painful reminder of the need to add substance to the promise of a common foreign and security policy. The union's enlargement to embrace the emerging democracies of the east is a political as well as a moral imperative. Closer to home, structural unemployment looms as an ever-larger threat to the social cohesion upon which political stability depends.

None of this is to accept a Eurosceptic agenda. A single currency may well prove a natural as well as a necessary extension of the single market. If so, it will be achieved, even if the present deadline slips. Nor is it certain, as many British sceptics now assume, that the deadline will be missed. The present pessimism reflects the economic stagnation of the past few years. A burst of strong growth would transform the outlook. But making the achievement of Emu by January 1 1999 the *sine qua non* of future integration is simply to fall into the sceptics' trap.

> Among British sceptics, the fervent hope is that delay or abandonment of a single currency will rip apart the Franco-German alliance

Among British sceptics, the fervent hope is that delay or abandonment of a single currency will rip apart the Franco-German alliance. Deprived of the motor of integration, the union could be stripped down to the minimal legal framework needed to operate the single market.

This ambition, of course, is entirely oblivious of history. The Bonn-Paris axis guarantees British as well as European security. The sceptics conveniently forget that Britain fights wars in Europe when Germany and France are in conflict.

The task for pro-Europeans is to construct a strategy which protects the Franco-German alliance from the *possibility* that France will not meet the conditions for Emu before 1999. A start can be made at next year's intergovernmental conference. Institutional change is essential if the union is to make room for the Poles and the Estonians, the Czechs and the Latvians.

But fiddling with the number of commissioners or the weighting of votes in the Council of Ministers will be worthless without more substantive reform. Enlargement to 20 or 25 requires a vision different to that of Monnet and Schuman. It will be successful only if the present 15 address the need for reform of the Common Agricultural Policy and the structural funds. And an effective foreign and security policy in post-communist Europe demands that the union make a success of intergovernmentalism.

In all this, of course, Britain should play a pivotal role. But although John Major tells us he has a message to take to his partners in Madrid, the prime minister will not have a voice. His European counterparts are all too aware that Mr Major's strategy is shaped not by a vision of Europe's future but by the requirement to preserve the facade of unity in his party. Talk to diplomats from Germany and France and they will tell you that, yes, sometimes Britain is right. But the prospectus is tainted by the suspicion of its motives.

As the price of peace in the Tory party, the government has surrendered what influence it might have wielded at the intergovernmental conference. It will veto the institutional changes needed for enlargement. It will bar also any extension of the union's competence into interior and immigration policies. Mr Kohl and Mr Chirac have responded by saying they will press ahead regardless. Mr Major cannot complain. It was he who first promoted the idea of a multi-speed Europe. More likely, though, Germany and France will wait to see if Tony Blair replaces him in Downing Street.

The British approach to Emu bears the scars of sterling's departure from the exchange rate mechanism on Black Wednesday. There are indeed important issues to be addressed if a small, inner core of countries does press ahead with a single currency. But when Mr Major speaks of a "dawning awareness" across Europe of the risks, his fellow leaders can be forgiven for some puzzlement. Is he worried about the implications for the British economy if sterling is not part of the inner core? Or is he rejoicing at the prospect of a "competitive" pound? As for the great debate Mr Major demands, perhaps it should start at home. I am reliably informed that the terms of the truce in the cabinet preclude any serious discussion of Emu.

It is not enough, though, for good Europeans to play the easy game of exposing the contradictions in Britain's position. On one vital point Mr Major is absolutely right. The union is losing the faith of its citizens. And therein lies the best hope of the sceptics.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Policymakers should come clean on objectives

From Mr Malcolm Crawford.

Sir, In your leader "To cut, or not to cut" (December 13), you concluded that if the chancellor were to keep on overriding the governor of the Bank of England on interest rates he would be saying either that he judges the Bank to be incompetent, or that he believes he is a lucky gambler, or that he intends to ignore his self-imposed target.

You omitted a fourth possibility which would be more likely to justify a reduction in base rates. This is that the target for inflation, the only one that is announced, is not actually the only relevant target. If inflation were the only target, interest rates would have been rising throughout this year, because inflation has been at or above the targeted 2½ per cent, and the average inflation rate for the period from the last measured figure until about two years ahead (which is roughly what the Bank assesses) cannot be assured to lie below that figure.

Of course, if interest rates had been raised, real growth over the same period would be lower and unemployment higher, but if neither of these variables is targeted, such results would be irrelevant.

However, it is clear from both the behaviour and the speeches of the chancellor that he considers growth and perhaps unemployment to be very relevant indeed. His rejection of the governor's advice to raise base rates in the spring makes that clear by itself, quite apart from his statements of hope and intention.

Not for the first time, there is an official policy objective – the inflation target – and an unstated one, which may be either the growth of real gross domestic product or perhaps unemployment. Were this not the case, the setting of economic policy instruments would be easy; there would be no agonising decisions and choices. Nor is the UK the only country in which policymakers work to two or more objectives, not all of which they are prepared to admit.

In my view, monetary authorities would do better in the long run to come clean about their objectives. But perhaps that would reduce the excitement of occasions just witnessed.

Malcolm Crawford,
76 Abingdon Road,
London W8 6QT, UK

Right way to close gap

From Mr Paul Hinton.

Sir, I disagree with Michael Prowse ("The charitable urge", December 11) who states that philanthropy is the individual response needed "to close the gap" caused by pressure on government welfare spending. A more appropriate response, based on a sense of collective rather than individual responsibility, would be to oppose proposed tax cuts that exert pressure on the welfare budget.

Discretionary charitable giving is not a socially responsible mechanism for financing a social safety net. Political advocacy is needed "to close the gap".

Paul Hinton,
264 Lexington Avenue,
New York 10016, US

A fine arena for scientific lectures

From Ms Caroline Walcot.

Sir, If Peter Cave (Letters, December 13) had read the FT article about Stephen Hawking ("Physics superstar with a popular gift", December 9) more carefully, he would have stumbled upon the heart-warming fact that, for the space of one evening, the Royal Albert Hall had been restored to one of its original missions – an arena for scientific lectures – and that this unusual event was a sell-out.

Is it really odd for an enthusiastic audience to fight for places to see a successful British physicist who can explain his subject in ordinary, jargon-free language? Would it have made more sense to Mr Cave if the crowds had massed to attend a repeat of this year's utterly predictable last night at the Proms or a relatively predictable boxing match?

Let us hope that, before another 30 years pass, the Royal Albert Hall will fill up once more with a rave audience for a chemist, a biotechnologist or any other orator from the scientific domain. Or maybe it could play host to one of the celebrated series of Christmas lectures for children. Let's have an alternative to pantomime for those who have got a bit beyond the cultivation of geraniums.

Caroline Walcot,
285 chaussée de Drogenbos,
1620 Drogenbos (Brussels),
Belgium

High cost to UK of French electricity link

From Mr Bob Spears.

Sir, Further to recent reports of the industrial relations crisis in France causing electricity exports to flow through the cross-Channel inter-connector, it has not escaped the notice of large electricity consumers whose prices are tied directly to pool prices that these exports are a significant contributor to prices in the pool going as high as a staggering £1.11 per unit (compared with annual average prices of about 2.5 pence).

Normally – and this has been the case almost continuously since the link was uprated in 1986 – the flow of electricity is from France into England. Since privatisation of the electricity supply industry, this has been achieved, as noted in a revealing report into British Energy Policy and the Market for Coal in January 1993 by the House of Commons Trade and Industry Committee, by Electricité de France (EdF) "bidding into the pool at prices far below its costs (0.6 or 0.8 pence/unit) to ensure that it is selected to supply".

The large consumers currently suffering from high prices would feel better if they received benefit at other times. However, after explaining the curious privatisation arrangements under which, instead of the electricity being liable for the fossil fuel levy, it receives the so-called "green ticket" benefit, the select committee concluded that "far from providing cheap electricity, EdF has provided some of the more expensive base-load supplies on the system". This is because EdF's revenue is largely determined by expensive contracts rather than pool pricing

We have no wish to deny the French electricity supplies in the current emergency: that after all was an important consideration in the decisions to create and then uprate the link. Nevertheless large consumers, not to say the unemployed miners whose jobs were lost because of the imported electricity, would like someone to explain the commercial benefit to the UK economy from the £1bn or so (in today's money) contribution towards the link.

Bob Spears,
technical adviser,
Utility Buyers' Forum,
P O Box No 9740,
London NW11 7WE, UK

Franc policy

From Mr Walter Grey.

Sir, Samuel Brittan (Economic Viewpoint, December 7) was doubtless right in saying that ending the *franc fort* policy does not provide a workable alternative to the Juppé stabilisation programme. However, one need be neither a devaluationist nor a Eurosceptic/Tory Thatcherite to suggest that a new *franc fort* at a slightly lower, more sustainable level could help ease France's present self-inflicted pain, including a high unemployment rate, without provoking retaliatory measures or competitive devaluations by others, Germany included.

The stabilisation programme, meanwhile, remains the essential bedrock of a stable franc at any level. And it is needed, quite regardless of any "convergence" criteria, in France's own interest.

Walter Grey,
12 Arden Road,
Finchley, London N3 3AN, UK

Expect best financial advice to be given

Mr George Laurence.

Sir, Dearie me - so Barry Riley ("When Which? is not a best buy", December 9/10) believes that if I visit a financial adviser seeking advice I am not entitled to expect the quality of such advice to be any better than that offered by a refrigerator salesman.

Mr Riley considers the thought that a financial adviser should offer "best advice" as an idealised notion.

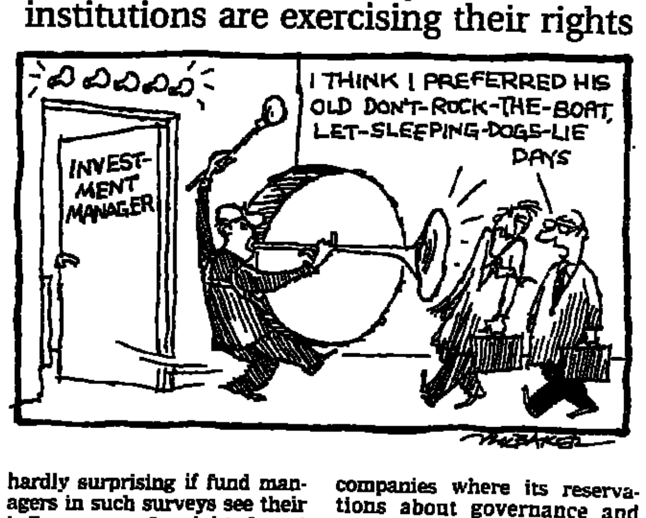
Mr Riley suggested that the researchers from Which? magazine asked the wrong questions. I suggest that if I am unsophisticated in matters financial and choose to seek advice from a professional then I should not be expected to know which questions are "right" and which questions are "wrong".

Mr Riley also suggests that the solution to the problem of being offered unethical or bad advice by financial advisers is to pay for it by the hour. No thanks. This industry which has given us Barlow Clowes, Knight Williams, the Great Home Income Plan Scandal, and the even greater mis-selling of pension funds scandal should sort itself out once and for all, or be sorted out by further legislation.

George Lawrence,
42 Falmer Road,
Enfield Town,
Middx EN1 1PY, UK

Mixed motives on governance

John Plender asks why investment institutions are exercising their rights



British investment institutions have traditionally been run by discreet folk who prefer to wield their influence, if at all, behind closed doors. Yet there are growing signs of a more open approach to the exercise of their ownership rights.

One is the move by the trustees of RailPen, which manages nearly £10bn ($15.3bn) of rail workers' retirement savings, to beef up and reveal publicly its corporate governance policy. Another is a study by Professor John Holland of Glasgow university, published this week by the Chartered Association of Certified Accountants, which found the institutions were providing constructive advice to management on corporate financial performance.

The National Association of Pension Funds, meanwhile, has been telling its members they have a duty to vote. That view has long been urged by Mr Alastair Ross Goobey of Hermes, which manages money for British Telecommunications and the Post Office. And Hermes, which has been prominent in attacking extended rolling contracts in the boardroom, is expected shortly to publicise its own governance policy.

So after years of being accused of inertia and short termism, the institutions are suddenly emerging in the guise of Platonic guardians. According to Prof Holland, they have developed an early warning system which is similar to the supportive role played by the house bank in corporate Germany. Is this outbreak of virtue too good to be true?

The trouble with studies that rely on interviews with institutional investors is that they tell only half the story. It is hardly surprising if fund managers in such surveys see their influence as far-sighted and benign. Industrialists suggest less flattering conclusions. Many complain that the fund managers' focus is chiefly on the dividend and anything that affects the bottom line this year, but not next.

If you think this is unkind, take a look at the evidence to the Commons trade and industry committee for its report on manufacturing competitiveness last year. Some of the industrial respondents would clearly have liked to shoot these investment sages. So where does the truth really lie?

On the basis of well-documented cases of shareholder activism, it is true that Britain's biggest institutional investor, the Prudential, has acted as a productivity chaser in the boardroom, going back at least as far as its campaign against Sir Bernard Docker at Birmingham Small Arms in the 1950s. It always has a list of companies where its reservations about governance and performance call for a more intensive dialogue.

No doubt it could have done more. But the Pru has probably been unique in the consistency with which it has been prepared to confront underperforming managements, if need be in public.

What we know of most other institutions is that they do now engage in a more active dialogue. Some have sought to oust bad incumbent management, but probably only rarely. Collective action through bodies like the National Association of Pension Funds or the Association of British Insurers is inevitably subject to a natural tendency towards the lowest common denominator.

As for the proportion of institutional votes actually exercised, it remains dismally low. Many are cast on a knee-jerk basis in favour of incumbent management.

This suggests that traditional habits, including the belief that the way to deal with bad management is to sell the shares, die hard. An equally powerful explanation for inertia is that fund managers are reluctant to act because of potential conflicts of interest.

The fund management arms of merchant banks have been known to vote against the banks' interests. Yet there is a widespread suspicion that most are reluctant to alienate present or potential bank clients. That is a powerful reason, incidentally, for suggesting that votes on substantive issues should be exercised not by fund managers, but directly by pension fund trustees.

On issues of remuneration, many director-trustees and insurance company managers also stand to benefit personally from boardroom inflation. The excuse that "more can be achieved behind closed doors" thus looks highly suspicious.

But why, then, are the institutions now sounding off more loudly on governance? It is surely not just a belated response to the Cadbury committee. More likely they scent a governance dividend of some kind. Interestingly, RailPen is proposing a more active stance on strategic matters, as opposed to "hygiene" issues such as pay. It is conscious that shareholder activism at the $90bn California Public Employees' Retirement System (CalPERS) has helped raise investment returns.

A more cynical interpretation might be that CalPERS has bounced some Brits into open commitment by declaring it will use voting rights more actively in Europe. It makes a good headline: faceless institutions fear loss of face.

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COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Friday December 15 1995

Kohl snubs the Baltics

The EU summit which opens in Madrid today will devote most of its time to detailed planning for the adoption of a single currency in 1999 and to defining the terms of reference for next year's inter-governmental conference which is to revise the Maastricht treaty. There will also be a preliminary discussion on reform of the common agricultural policy and the structural funds.

None of these discussions will make much sense, however, unless they are clearly related to the EU's historic and strategic mission of the 1990s, which is to extend eastwards the political stability and economic opportunities that western Europe has enjoyed in the last half century. Last week Felipe González, the Spanish prime minister, who will preside over the summit, pointedly told the Financial Times that the EU still lacks a strategy for enlargement. That view is certainly shared by the 11 leaders who will attend the summit from countries to which the EU has offered future membership, from Malta in the south to Estonia in the north-east. In the words of Jacek Saryusz-Wolski, Poland's chief negotiator with the EU, "we have been offered no dates for entry, and the route map drawn up by the Essen EU summit [exactly a year ago] has no clear road signs, no bus stops and no traffic code".

One reason why it is hard to provide such signals is that the 11 countries (or 12 counting Slovenia, which is held back only by a bilateral dispute with Italy over property rights) differ widely not only in their geo-strategic situation but also in their levels of economic and political development. It is obvious that they will not all be ready to assume the burdens and obligations of EU membership at the same time. Only with a differentiated calendar will the prospect of adhesion become credible.

The two Mediterranean candidates, Cyprus and Malta, have already been given a date for opening negotiations, six months after the end of the intergovernmental conference, which probably means before the end of 1997. That was achieved by astute bargaining on the part of their EU neighbours and sponsors, respectively Greece and Italy. Now Helmut Kohl, the German chancellor, is asserting a similar strategic priority for Germany's neighbours and protégés, which are Poland, the Czech Republic and Hungary.

That is fair enough. What is less fair is his reported argument for not including the Baltic states in this "first wave", which is that to do so might encourage their desire for a defence guarantee, that is, membership of Nato or of its "European pillar", the Western European Union.

The Baltic states are already extremely apprehensive about the implications for their security of Nato's apparent intention to welcome Poland while leaving them outside, on the explicit grounds that their territory is militarily indefensible against a Russian invasion. This comes perilously close to excluding them from western Europe and consigning them to a Russian sphere of influence. The only way western Europe can correct that impression is by moving as fast as possible to include the Baltics in the EU, so that Russia will not be tempted to think it can use its military power in the region without making an enemy of the Union as a whole. Economic and political criteria for EU membership there must be. But strategically it must be clear that the Baltics have as much right to be in the first wave as any other candidates.

Bundesbank

The pressure for cutting German interest rates seemed so strong that the surprise-loving Bundesbank was not expected to yield to it. In explaining why it did, nevertheless, cut interest rates to their lowest level since July 1988, Mr Hans Tietmeyer, the president, remarked, admirably, that "the wishes and demands of others cannot stop us from doing what we ourselves consider to be right".

Mr Otmar Issing, the Bundesbank's chief economist, even confessed that "our worry is the real economy". But he protected his monetarist credentials by admitting that the "rate cut was almost unavoidable, as the Bundesbank wanted to see stronger money supply growth". Certainly, monetary targeting has not been abandoned, despite the undershooting in 1995. Nor does the proposed 4-7 per cent range for the growth of broad money, M3, next year seem a significant loosening.

Even for countries not closely tied to the Bundesbank, this is a wonderful Christmas present. Mr Kenneth Clarke should be pleased to note that the reduction in the repurchase rate is almost exactly a quarter of a percentage point, like his own on Wednesday. Further reductions in UK interest rates are likely to follow.

As for the French government, it must be delighted that the Bundesbank has done the right thing. The star it has been following so faithfully may be guiding it where it wishes to go, after all. If markets become convinced of this, too, France may yet escape from its vicious spiral of weak credibility, slowing growth, fiscal deficits and social strife.

Phone numbers

Yesterday's report from the Monopolies and Mergers Commission on telephone number portability was greeted by twin fanfares from British Telecommunications and its regulator Oftel, each claiming victory. In fact, large pieces of the 200-page report simply represent a pragmatic compromise. Yet, overall, Oftel has won. The principles behind the decision, a landmark case watched keenly by other countries, may also set precedents for other imminent tussles between BT and Oftel.

Number portability is telecommunications jargon for one of the industry's most important issues: the ability of customers to keep their phone numbers when switching to a rival operator. The technology to do so has emerged in the past five years. But even in the UK, often a testbed for telecoms regulation, the debate about how to charge for portability had not been resolved. Cable companies say this is one important reason why BT still controls more than 90 per cent of customer lines.

In the row between Oftel and BT that led to the MMC review, BT did not dispute that the facility should be available. Three other issues were at stake: the true costs of portability; how those costs should be divided between BT and its rivals; and whether the regulator should have future discretion over that allocation.

The MMC's view of the true costs proved much closer to that of the new entrants than to BT's initial claim, based on past technology. BT's estimates of costs fell sharply during the review; it says this was because it took account of savings from new technology, but the steep downward revisions have done little to quieten criticism of its competitive tactics.

On regulatory discretion, BT can claim a modest victory. Oftel won some increase in power, but less than it wanted, and the broad split of costs set out by the MMC must be written into BT's licence.

The trickiest issue – the allocation of costs – was resolved essentially in Oftel's favour. The MMC departed from the general principle of setting charges in line with costs, and recommended that BT should not be able to recover all its costs of providing portability.

In making this step, the MMC accepted Oftel's case that there are likely to be wider benefits, beyond those to the subscriber switching operators. These include more competition, which may lower prices. But it is striking that the MMC felt it lacked enough evidence to quantify the benefits, despite a lengthy analysis commissioned by Oftel. To that extent, its apportionment of the costs of redirecting each call is somewhat arbitrary.

As the costs of redirection are relatively small and falling, all parties may feel content with the outcome. But the significance of the step is that it shows that the MMC is inclined to favour competition, when information is insufficient. Like Oftel, it regards number portability as a good thing, even if it cannot say how good. That approach has dangers, notably fostering flabby entrants rather than vigorous competitors, as some feel UK telecoms regulation has tended to do. Given BT's dominant position, however, the MMC's instinct is surely right.

These questions may recur if other skirmishes between BT and Oftel progress to the MMC. That now seems likely, particularly the wider row over regulatory discretion. Given Oftel's robust stance, BT may feel it has little to lose by going to the MMC, and at least a year to gain. But yesterday's report shows that the period of such reviews may bring only a temporary respite.

Hard road to higher sales

Rising production capacity in Europe means carmakers are having to woo buyers with special offers and discounts, says Haig Simonian

From "Car" to "Quattroruote", Europe's motoring magazines are bursting with end-of-year advertising extolling the new cars introduced in 1995. But this year, more than ever, the bulging December issues belie a worsening trend for manufacturers: the latest registration figures demonstrate that too many companies are chasing too few sales.

Provisional data from the European Automobile Manufacturers' Association show that registrations in the 17 European countries covered rose by just 1.1 per cent in the first 11 months of this year compared with the same period in 1994.

Even that modest increase was achieved only thanks to expensive market-boosting measures, such as cheap finance and one-off special offers. "Incentives have become the crutch of the European car industry," says one leading motor industry analyst. "The limited rise in registrations in some markets is almost all due to such schemes."

The only significant sales rises this year have come in Germany, Europe's biggest car market, and the UK, the second biggest. In both cases, the increases have been driven by discounting and incentives.

Not even the strong sales increases in Britain in October and November, which followed a lacklustre year, brought much cheer. Mr Ernie Thompson, the chief executive of the UK's Society of Motor Manufacturers and Traders, says the rises "largely result from aggressive marketing initiatives by individual manufacturers to stimulate demand, rather than a sudden return of the feelgood factor".

Demand for cars in France and Spain, two other big markets, is also in the doldrums. Both governments have tried to boost registrations by offering cash to owners who trade in their old cars. But sales remain stalled in France, where a collapse in sales after the expiry of the first such part-exchange scheme in mid-year triggered the introduction of a wider scheme in September.

Europe's virtually static sales contrast with an increase in supply. Production capacity has climbed steadily in western Europe in the 1990s with the arrival of Japanese factories "transplanted" to the UK. Nissan, Toyota and Honda have stepped up their capacity to a joint total of more than 500,000 units a year since Nissan started producing cars in the UK in 1986. Further planned expansion will take it to 650,000 by 1999.

European carmakers have also expanded. Fiat has opened a new factory to build up to 450,000 cars at year at Melfi in southern Italy; Ford and Volkswagen have set up a new plant in Portugal; and Volvo and Mitsubishi have expanded a former Volvo-owned Daf factory in the Netherlands as part of their Nedcar joint venture. Even smaller manufacturers want to grow: Jaguar, owned by Ford, will boost its output to 100,000 cars a year with a new £400m plant. Closures, by contrast, have been few and far between.

The imbalance between the strength of supply and of demand has been exacerbated by the much greater reliability of new cars. Motoring groups used to recommend replacing a car within three or four years of manufacture to avoid the heavy maintenance costs almost certainly due thereafter. Bodywork was a particularly weak point. Rust would often put paid to the life of even a mechanically sound vehicle. Such problems seem inconceivable in today's vehicles, with rust-resistant steels and multi-year warranties on mechanical components.

The oversupply headache has worsened because of an influx of new foreign brands. Hyundai and Daewoo are the best-known of four Korean brands now on sale. Proton of Malaysia and Tata of India – also newcomers in the 1990s – are increasing European sales. More brands are on the way. Overcrowding will increase next year when Chrysler of the US boosts its now limited European sales drive.

The increase in supply has been partly mitigated by more sales outside western Europe. The Japanese, for example, are now shipping limited numbers of cars to Japan.

This year has also seen an upturn in sales of luxury cars to the US. Mercedes-Benz says its US sales should reach about 75,000 this year, 3 per cent more than in 1994.

Exports to eastern Europe have also risen on the back of strong economic growth in the region. Demand is expected to climb even faster once the high local tariffs on imported cars start to come down.

However, there are signs that competition to become the dominant supplier in each national market may force Europe's car companies to build new plants in the east, rather than soaking up some of their spare capacity in the west. Fiat, which has long had a presence in Poland, has expanded output at FSM, the former state-owned manufacturer it now controls. Daewoo has agreed to take over and expand FSO, Poland's other main carmaker.

Rising exports may help to take the pressure off western Europe, but their effect remains marginal compared with the overall problem. The oversupply of cars means manufacturers are having to spend more on marketing and new product development.

Mr John Lindquist, a motor industry specialist at the Boston Consulting Group, argues that the industry has switched its attention from the basic issue of overcapacity. "Manufacturers have become much more efficient, bringing down their break-even points. That means surplus capacity is no longer such an acute financial drain. But they are having to spend much more on bringing out new cars, at shorter intervals, and on marketing them more aggressively," he says.

The financial impact of oversupply, weak demand and increasing promotional spending has been dramatic. In some cases, such as at Germany's Volkswagen, it has not yet emerged clearly in the bottom line, as large savings are still being made by slashing production costs and squeezing suppliers.

But at more cost-effective manufacturers, such as Ford and General Motors (which owns Opel and Vauxhall), where most of the fat has already been removed, the impact of higher marketing costs is unmissable. Earnings at the European subsidiaries of the US companies have fallen sharply this year.

The industry has reacted by targeting niche buyers. This year has seen a surge in convertibles, multi-purpose vehicles (also known as people-carriers), and four-wheel-drive sports utilities.

Such models, especially the eye-catching open-top sports cars now reaching the showrooms, are supposed to recreate some of the mystique of buying a new car. They can polish a brand's image and draw customers into the showroom. According to this theory, many of the motorists who walk in to ogle a slinky new convertible walk out with a four-door saloon.

But the risk is this will be self-defeating as even the niches become overcrowded. Some manufacturers are already asking who will buy the thousands of two-seater sportscars rolling off the production lines. Fiat and its Alfa Romeo subsidiary already have two models jostling for attention with Rover's MGF. But the battle will only begin in earnest next year, when BMW, Mercedes-Benz, Porsche and Renault will introduce two-seaters.

The same is happening with multi-purpose vehicles. Renault's Espace, which created the segment in Europe, is now flanked by two models from the Fiat group and two from Peugeot-Citroën. Ford and VW have also launched products this year, while 1996 will mark the debuts of multi-purpose vehicles from Mercedes-Benz, Opel and Chrysler.

"The only ways of squaring the circle of too many cars and too few buyers is through an improvement in demand," says Professor Garel Rhys, an industry economist at Cardiff Business School. Macroeconomic prospects for next year are not encouraging. Reports by DRI and the Economist Intelligence Unit, two leading industry forecasters, have painted a cautious picture of demand in the year ahead.

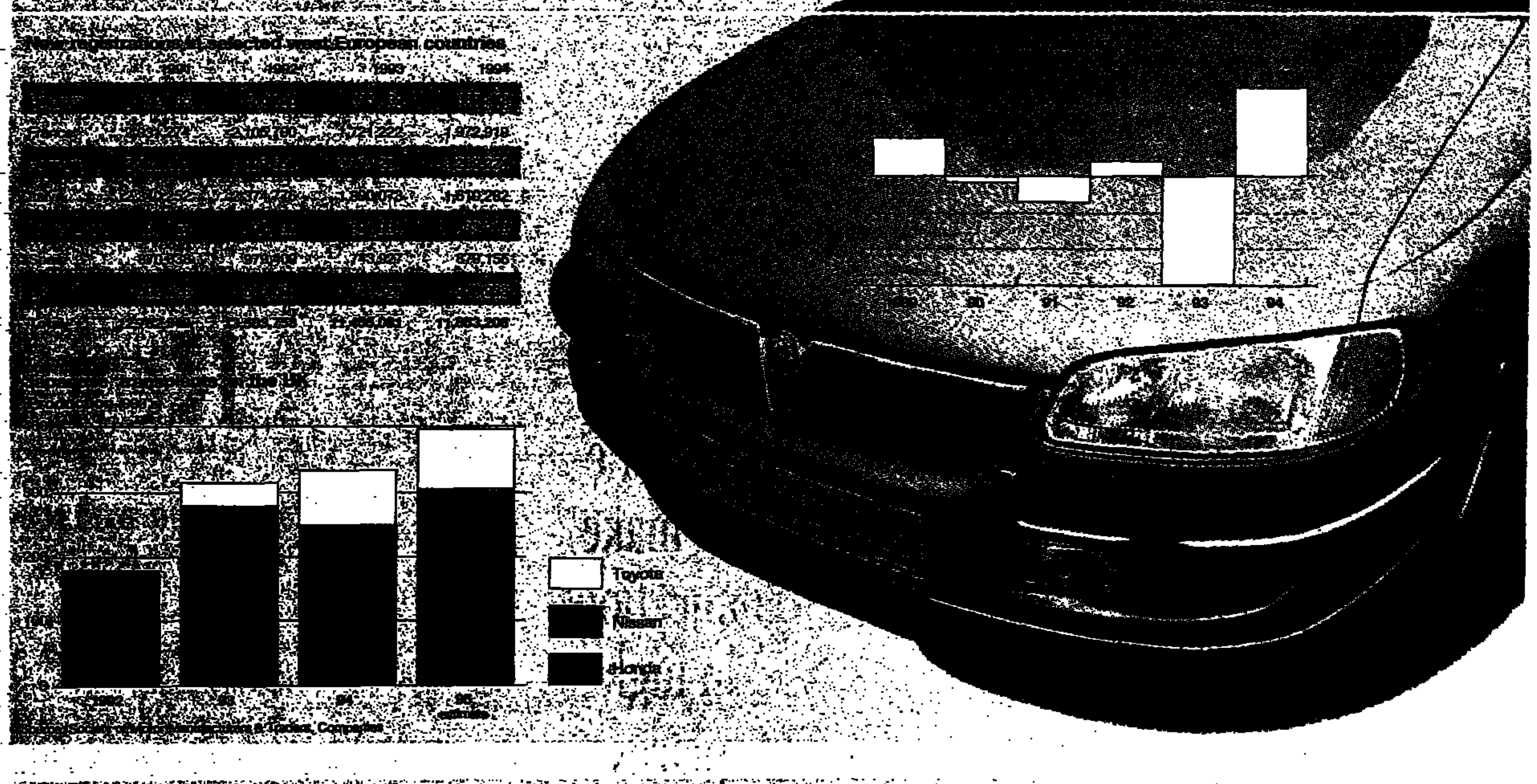
"If the macroeconomic picture remains unpromising, the only alternative way to stimulate demand is through price cuts," says Prof Rhys. In spite of the efficiency gains in European car plants, new vehicles still cost appreciably more in Europe than in the US or Japan, he notes.

Price-cutting, however, is the last thing Europe's carmakers want to hear. Although almost all acknowledge the difficulties in the market, none is prepared to risk cutting prices to boosting demand, which could lead to a price war.

Instead, the industry has opted for limited price reductions. Prof Rhys says he found only nine examples of price cuts, independent of tax or specification changes, in the UK car industry between 1950 and 1990. In the past five years, however, he can identify 48 such cases. Price-cutting has also been done through the back door. For example, the premium charged when a popular model is replaced has virtually vanished. Even when prices go up, they often include as standard equipment items which would have cost extra in the past.

But this limited price-cutting hardly even starts to address the problem. Until Europe's car industry grasps the nettle of pricing, demand is likely to remain in the doldrums. But reducing prices almost certainly requires rationalisation, meaning plant closures and, just possibly, mergers. And those, for the moment, are taboo.

European carmakers: chasing too few customers



OBSERVER

The cupidity complex

[illegible]

up to $1m. He will be sentenced next March. The authorities have yet to decide whether to prosecute the chum, Kenneth Rottenberg.

What Lockheed thinks of its garrulous executive remains hidden in the murky subconscious.

Shifty looking

■ Not much sign of European unity in Madrid yesterday morning at the kick-off of yet another EU heads of state summit. Participants from the so-called Schengen countries, theoretically liberated the past six months from passport checks, expected to stroll through passport control. No such luck: they had to dig out their long-forgotten documents.

They didn't like that at all, and challenged a Spanish passport control officer, who abruptly informed the growing queue that Schengen had been postponed for a week – because of the summit and the need for tightened security precautions. Can't wait for Emu; that'll no doubt be suspended whenever someone sneezes.

Juppé game show

■ Even though France is experiencing considerable industrial turmoil, by midday the government's machinery is always able to quote the precise number of public sector workers on strike. How do they do it?

Mind you, things are different when it comes to estimates for numbers demonstrating against prime minister Alain Juppé's social security reforms. The police, ministry of interior and union organisers' claims are increasingly divergent.

Computer screens at Force Ouvrière, one of the big strike-inciting unions, now show a telethon-style "Juppéthon" figure for the number on the streets; yesterday it registered 2.13m, compared with government estimates of about 1m. Not that French civil servants would massage their figures; just that we recall Juppé saying he might feel a resignation coming on, if 2m people took to the streets against him.

'Ere we go – maybe

■ The European Court today is due to make a landmark ruling that could – if Europe's soccer barons are to be believed – change the face of civilisation as we know it. Let's hope so; the world of football management could do with a bit of civilising.

The case revolves around an out-of-work Belgian player, Jean-Marc Bosman, who in September won a preliminary opinion from the Court, effectively abolishing the current transfer system. If fixed in place, that judgment will end restrictions on the number of foreign players sides can field, and prevent clubs demanding transfer fees for players whose contracts have expired.

And although ending transfer fees would wipe out the profits made by clubs who buy cheap and sell expensive, it would also firmly shift the balance of power from club management to players.

All very right and proper free market stuff, surely? Except the Court's earlier opinion seriously annoyed the European football ruling body Uefa, which brooks no interference in its rule-making powers. So will the Court today lose its bottle and back off? Anyone sniff a 'bung' (that's English for big wad of banknotes in a brown envelope) in the air?

Flagging spirits

■ Thailand has officially ended all assistance to Khmer Rouge guerrillas fighting the Cambodian government, though some Cambodian officials accuse Thai leaders of continuing the connections. Their suspicions grew yesterday, when, just as Cambodia's two prime ministers were due to arrive at Thailand's Government House on an official visit, Thai officials raised a red flag in welcome, which looked curiously familiar to a battle-scarred Reuter photographer. You guessed it – the flag was of the Khmer Rouge. Whoops.

The Financial Times

100 years ago

Board of Trade industrial report
Greater activity, fewer trade disputes and better wages are the chief features of the industrial position for November according to the Board of Trade Journal.

And all this notwithstanding the shipyard disputes on the Clyde and at Belfast.

Even allowing for the unemployed engineers, the percentage of workpeople idle in November was less than in any corresponding month during the past two years. November 1894 was a month of great depression, and no less than 117,000 workpeople had to put up with a reduction in wages.

Last month only 100 were in this predicament, while 15,900 had their earnings increased. Had it not been for the shipbuilding strike, the past month's showing would, of course, have been still better, for it is calculated that the number of engineers thrown out in the Glasgow district alone amounted to 3,200.

As it is, we have good cause to be grateful for such strong corroborative evidence of the revival of commerce.

FINANCIAL TIMES
Friday December 15 1995

Leaders of Asean back increase in membership

Burma, Cambodia and Laos to join world's largest free trade area

By Ted Bardacke in Bangkok

Leaders of the seven countries in the Association of South-east Asian Nations (Asean) yesterday unanimously endorsed expanding the organisation's membership to include Burma, Cambodia and Laos.

With all 10 countries of the region likely to be incorporated into Asean before implementation of the Asean Free Trade Area (Afta), the grouping would become the largest free trade zone in the world, totalling more than 450m people.

It will also then include all countries along China's southern border. Most Asean nations, some of which have overlapping territorial claims with China in the South China Sea, consider China their most immediate security threat.

"Before the year 2000, the Asean vision of a community of 10 south-east Asia countries is likely to become reality," Singapore's premier Goh Chok Tong said in his opening speech to a two-day summit of Asean heads of government. Asean leaders hold their first joint meeting with their Burmese, Cambodian and Laotian counterparts today.

Officials said Cambodia and Laos, already Asean observers, could join the organisation as early as 1997. Burma should be granted observer status next year and become a full member by 2000.

The impetus to including the three countries, all in various stages of transition from socialist to market economies, has been the successful incorporation of Vietnam, which joined Asean earlier this year.

Asean has set out criteria that new members must fulfil before admission. These include improving tariff codes, scrapping non-tariff barriers and submitting a complete list of goods to be covered under Afta's four tracks of tariff reduction.

In spite of Cambodia's increasing political instability, and protests by Burmese dissident groups, internal political questions will be ignored by Asean when considering entrance for new members. Doing so would violate Asean's founding principle of non-interference. A 10-member Asean will have only two countries, the Philippines and Thailand, where ruling parties have any more than a theoretical chance of being expelled from office.

Attempts to widen Asean come as some leaders are warning it must deepen ties as well. "Asean is clearly no longer at the head of the trade liberalisation process. In terms of economic integration, Asean is actually behind other regions," Mr Goh said.

Mr Banharn Silpa-archa, the Thai prime minister, urged all tariffs in Asean to be scrapped by 2003, instead of cut to a maximum 5 per cent by that date. He also urged that negotiations to liberalise the region's service sector be completed within 15 months, instead of three years.

Mr Banharn and Mr Mahathir Mohamad, Malaysia's prime minister, agreed to set up a committee to devise a long-term solution to a bilateral fishing dispute which erupted last month after the Malaysian navy killed two Thai fishermen illegally fishing in Malaysian waters.

$700m rescue plan for Iberia agreed by Spain and Brussels

By David White in Madrid, Emma Tucker in Brussels and Michael Skapinker in London

Spain yesterday reached agreement with the European Commission on a controversial rescue plan for the state-owned Iberia airline, allowing for an injection of up to Pta87bn ($706m) in new capital.

The agreement, sealed between Mr Neil Kinnock, the transport commissioner, and Mr Juan Manuel Eguiagaray, Spain's industry minister, still requires formal Commission approval, which is not expected until next month.

The compromise agreement was reached after nine months of negotiations between Brussels and the Spanish authorities over how much aid would be acceptable under European Union competition rules.

Mr Kinnock said he was also willing to consider a request for a further Pta20bn in 1997, provided the company could demonstrate its viability.

British Airways reacted angrily to the announcement. The airline said: "We are astonished at the decision which will further put back any prospects for truly open skies in Europe."

BA said it would "wait and see" before deciding whether to take court action over aid to Iberia, as it has done in the case of Air France. It is thought the airline will wait until the European Commission has approved Mr Kinnock's proposals. The Commission was heavily criticised last year for approving a FFr20bn ($4bn) subsidy to Air France, as well as giving its blessing to bail-outs to Olympic Airways and TAP.

However, Iberia's Pta87bn – which fell short of an original Spanish demand for Pta130bn – was only allowed after the Commission was satisfied that Iberia had taken substantial steps to turn itself into a viable enterprise.

Most notably the company sold most of its 85 per cent stake in the lossmaking subsidiary Aerolineas Argentinas which had been draining it of some $900m per year.

For this reason, the Commission yesterday argued that the Pta87bn did not constitute state aid and was justified on purely commercial grounds. Under EU law, governments are allowed to invest in public or private enterprises provided they can show they are acting like a private investor.

"This was a good decision and a fair decision," said Mr Kinnock. "I am confident that Iberia can be turned into a competitive airline."

Mr Eguiagaray said that the injection was "not state aid" and that the Commission's approval was not pegged to capacity reductions or limits on the company's future expansion.

Uncertainty over Iberia's future now focuses on the attitude of the unions, especially the powerful pilots' body Sepla, which recently staged a series of strikes arguing that the original restructuring agreement had not been fulfilled.

US-led grouping wins stake in Belgacom

Continued from Page 1

avoided the question of how far staffing levels would be reduced over the long term through early retirement, voluntary redundancies and natural wastage.

"If we had done nothing, the 26,000 workers of Belgacom would have had to fear that Belgacom would cease to exist in two to three years' time," said Mr Di Rupo.

Both uncertainty about employment and an unfunded pension liability of about BFr110bn depressed the price for the stake in Belgacom.

According to the Belgian government – advised on the sale by Morgan Stanley and Banque Degroof – the Belgacom board will be composed of up to 18 executives – nine from Belgacom and nine from the consortium. The presidency will go to a Belgian government appointee.

US seeks to arrange peace deal for Israel and Syria

By Julian Ozanne in Jerusalem

The US yesterday launched an ambitious bid to put together a peace deal between Israel and Syria as Mr Warren Christopher, US secretary of state, arrived in Damascus with a series of new negotiating initiatives.

Mr Christopher will present Mr Hafez al-Assad, the Syrian president, with at least four different negotiating formats, including a Camp David-style summit.

He may present a paper marking Israel's first commitment to recognise Syrian sovereignty over the Israeli-occupied Golan Heights, and will then travel to Jerusalem to meet Mr Shimon Peres, Israel's prime minister.

After discussions between Mr Peres and US president Bill Clinton in Washington this week, Mr Christopher's visit will also mark a fundamental change in the US role. From now on the US will be more active, helping to bridge differences and suggest compromises rather than merely carrying messages between Jerusalem and Damascus.

In the wake of encouraging signs from Damascus, the US and Israel feel an intense period of diplomacy and negotiation could yield results before US and Israeli elections next year.

Israeli officials said Mr Christopher would suggest a series of negotiating formats including a Camp David-style summit between Mr Peres and Mr Assad.

The US will also put forward Mr Peres' call to conduct negotiations simultaneously on all bilateral issues and focus on seemingly intractable security arrangements as a precondition for negotiation of other issues. This would be a departure from the policy of Mr Yitzhak Rabin, the former prime minister.

An Israeli newspaper yesterday quoted a senior cabinet minister saying Mr Christopher would present Mr Assad with a "bridging paper" offering Israeli recognition of Syrian sovereignty over the Golan Heights, occupied during the 1967 Arab-Israeli War.

But Mr Peres denied the report. "Even if he is an unusually senior minister, he cannot know what is written in a document that has yet to be written," he said.

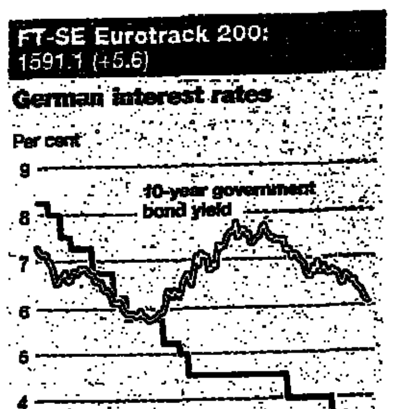
Israeli officials said the overwhelming priority of Mr Christopher's mission was to seek ways to restart the stalled negotiations by any means. US officials have said Mr Assad was willing, in principle, to upgrade from ambassador to foreign minister level, but that he continued to make an Israeli commitment to full withdrawal from the Golan Heights a pre-condition to a summit.

"It won't surprise me if one of the results of the visit will be an announcement of the renewal of talks," said Mr Itamar Rabinovitch, Israeli ambassador to the US.

THE LEX COLUMN

Have I got news for you

Viewed in isolation, yesterday's link-up between Microsoft and NBC has logic. The software giant wants an interactive news service to add to its Internet package; while the broadcast network is eager to enter the currently lucrative market for round-the-clock news on cable television.



But viewed as part of a trend towards increasing competition in the global market for cable channels, the Microsoft/NBC joint venture spells trouble. ABC, now part of Disney, and Mr Rupert Murdoch's News Corporation have recently unveiled similar plans for 24-hour news channels. A market hitherto monopolised by Mr Ted Turner's CNN looks set to be turned into a cut-throat battleground.

Impending competition is not confined to general news channels. News Corporation and Tele-Communications Inc (TCI), the largest US cable systems owner, are launching a global sports channel to rival Disney's highly-profitable ESPN. NBC has kept itself in the sports broadcasting market by paying $2.3bn for exclusive rights to US coverage of the Olympics until 2008.

The rivalry is unlikely to stop at this. One of the main purposes of the two mega media acquisitions of 1995 – Disney's purchase of Capital Cities/ABC and Time Warner's bid for Turner – is to buy "packaging" skills to create more cable channels. But the increased competition unleashed by these deals is undermining their logic by threatening the value of the targets' prize assets.

The barriers to entering the cable market can be high. In some places, it is difficult to secure distribution. Moreover, if a dominant channel has a lock on the most attractive content, a rival may be hard-pressed to assemble a sufficient package of material for a credible channel.

Unfortunately for investors in established companies, though barriers are high, the new entrants have the financial resources and ambition to leap over them. Increased competition will squeeze margins. The cost of acquiring and creating content will escalate. Media groups will have to throw more resources at marketing if they are to be heard above the babble. Optimists believe people will spend more hours watching TV. But the current craze for the Internet suggests they will increasingly switch to their computers.

That said, media groups could still enjoy exceptional profits if they control bottleneck monopolies, such as that possessed by BSkyB, Mr Murdoch's UK satellite network. The Turner/Time Warner deal could create a similar bottleneck in the US, as it would link the dominant supplier of cable channels with the two largest cable systems – those of Time Warner itself and TCI, due to become Time Warner's largest shareholder. The merged entity would have immense bargaining power vis-à-vis rival cable channels and cable systems.

But investors should not count on such bottlenecks surviving anti-trust scrutiny. The Time Warner/Turner deal is being examined by the US competition authorities while BSkyB is being probed by Britain's Office of Fair Trading. Shareholders would, in general, be better working on the assumption that the future will be more competitive than the past.

Germany

The Bundesbank has been playing its favourite game again. Having failed to cut interest rates two weeks ago, yesterday's half-point reduction in both the discount and Lombard rates wrong-footed the market.

Still, the cut was only a matter of time. While Mr Hans Tietmeyer, Bundesbank president, argued it had been prompted by sluggish monetary growth, the real concern is the stalled economy. The German government's admission that the third quarter will show no growth has been reinforced by grim November figures for retail sales and industrial production. To achieve even the reduced forecasts for economic growth in 1996 of 1.8-2 per cent, a rate cut was sorely needed. With inflation stable at 1.8 per cent, the bank had freedom to act.

A wider concern was undoubtedly the desire to support the French government's efforts to reduce the budget deficit and rekindle its own economy. Belgium and the Netherlands cut interest rates in response to the Bundesbank. That should make it possible for France to follow suit soon. It will also help Mr Kenneth Clarke, UK chancellor, to argue for another base rates reduction early next year.

German interest rates have now entered a period of stability. Three per cent has tended to be the bottom of the interest rate cycle so it would take a real crisis in the economy to justify a further reduction. But equally there is little pressure for an upward move while the D-Mark remains strong and inflation subdued.

Nokia

For one of the world's mobile communications leaders, Nokia is having great difficulty communicating. Only on Wednesday, the Finnish mobile phone and consumer electronics manufacturer waxed lyrical on the strength of the US mobile phones market. Now it admits its mobile phones division will be below budget in the last four months of 1995, though it gives few hints why. Furthermore, its consumer electronics division is going to make another "significant loss", despite having already undergone extensive restructuring. In the circumstances, it is hardly surprising its share price collapsed yesterday. Having risen by nearly 800 per cent since 1993, the shares were always vulnerable to nasty surprises.

At least Nokia has indicated that the global market for mobile phones continues to perform strongly, and Ericsson remains equally confident. Clearly, demand for analogue phones is slowing, and price pressure continues. But digital handsets are rapidly taking up the slack. Indeed, Nokia has been a victim of the industry's success.

The knock-on effect on Motorola and Ericsson shares therefore looks overdone. Ericsson produces few analogue phones and makes far more profit from mobile phone systems than the handsets. The plunge in Vodafone's share price is even more bizarre. But for high-tech growth stocks investor confidence is all-important and Nokia's management could take a long time to win that back.

Additional Lex comment on Asda and BT, Page 20

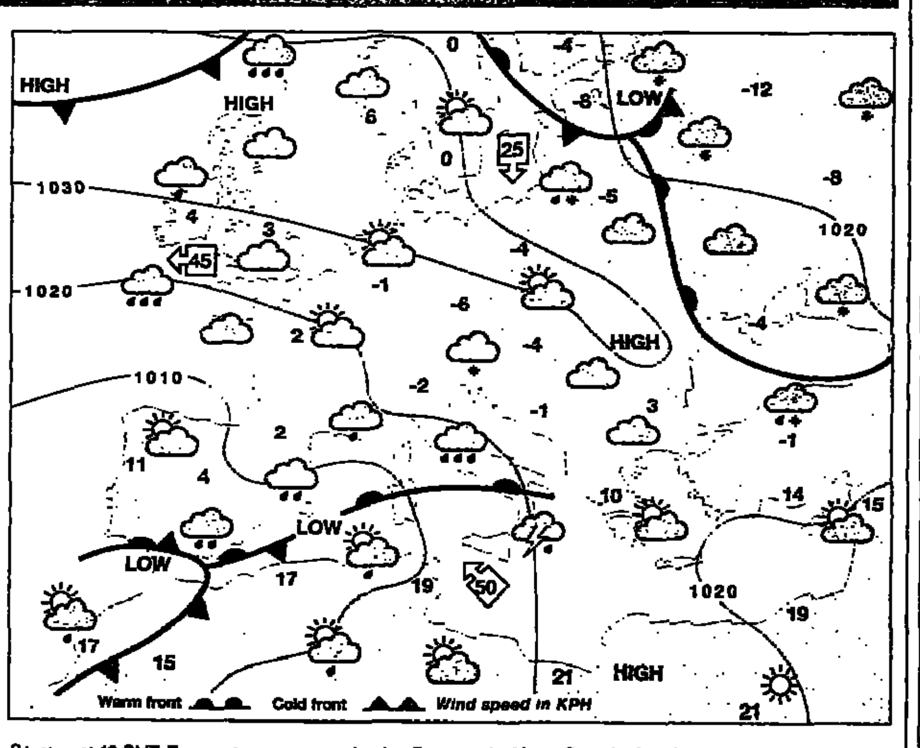
FT WEATHER GUIDE

Europe today

Most of the continent will be overcast. Eastern Spain, the extreme south-east of France and most of Italy will have rain, turning to snow on high ground. Austria and Switzerland will have light snow, while south-eastern Europe will remain cloudy but dry. Afternoon temperatures will be below freezing except in Greece, Albania and Bulgaria. Western Spain, Portugal and most of France will remain dry with sunny periods. The UK will be cloudy with some sunny spells, and southern parts of the Benelux and Germany will remain cloudy. Poland, northern parts of the Benelux and Germany and southern Scandinavia will be mainly sunny.

Five-day forecast

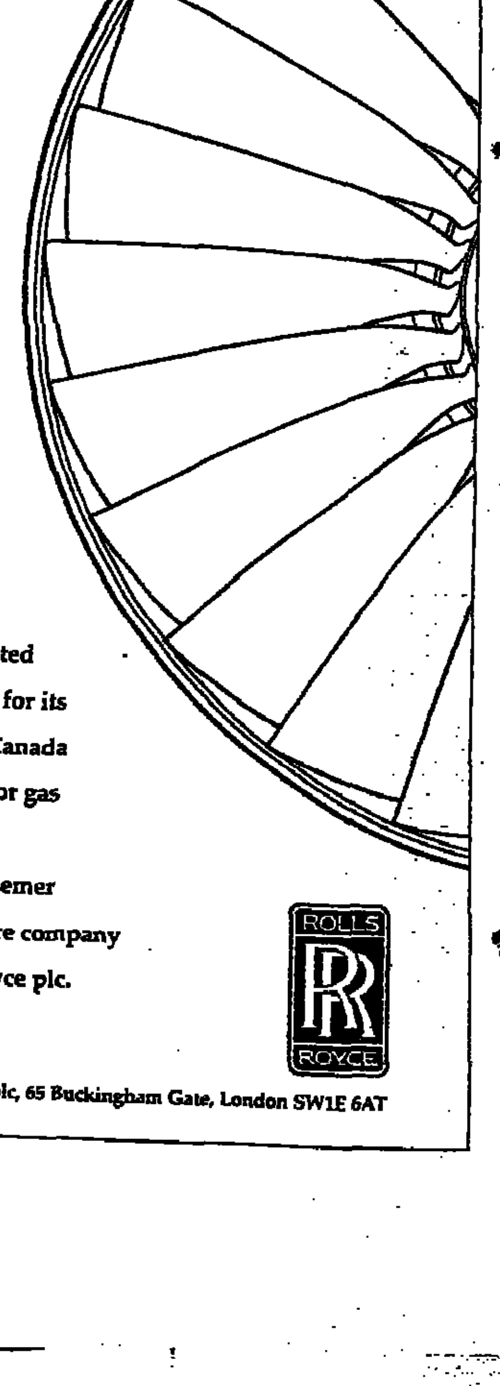
High pressure over Scotland and northern areas of mainland Europe will bring sunny, dry conditions in England, the Benelux and northern Germany. A series of low pressure systems will cross southern Europe, bringing cloud and rain. Spain will have more settled conditions, and can expect sunny periods during the weekend. South-eastern Europe will remain cloudy, and by early next week conditions in former Yugoslavia, Greece and Turkey will become unsettled.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius															
			Beijing	fair	2	Caracas	fair	31	Faro	fair	15	Madrid	rain	3	Rangoon	sun	31
			Belfast	cloudy	4	Cardiff	fair	5	Frankfurt	fair	1	Majorca	rain	14	Reykjavik	sleet	4
Abu Dhabi	cloudy	25	Belgrade	cloudy	1	Casablanca	rain	18	Geneva	cloudy	3	Malta	cloudy	18	Rio	cloudy	26
Accra	cloudy	30	Berlin	fair	-3	Chicago	fair	4	Gibraltar	rain	15	Manchester	cloudy	5	Rome	rain	15
Algiers	cloudy	20	Bermuda	cloudy	19	Cologne	cloudy	0	Glasgow	fair	5	Manila	shower	30	S. Frsco	shower	15
Amsterdam	fair	0	Bogota	thund	20	Dakar	cloudy	25	Hamburg	fair	0	Melbourne	cloudy	22	Seoul	fair	3
Athens	fair	13	Bombay	sun	33	Dallas	sun	17	Helsinki	fair	-1	Mexico City	fair	22	Singapore	thund	32
Atlanta	shower	17	Brussels	fair	2	Delhi	hazy	24	Hong Kong	cloudy	22	Miami	fair	28	Stockholm	fair	3
B. Aires	fair	28	Budapest	cloudy	-1	Dubai	shower	25	Honolulu	fair	30	Milan	rain	3	Strasbourg	cloudy	1
B.ham	cloudy	2	C.hagen	fair	1	Dublin	rain	6	Istanbul	fair	8	Montreal	snow	-3	Sydney	fair	26
Bangkok	fair	31	Cairo	sun	20	Dubrovnik	cloudy	14	Jakarta	shower	28	Moscow	snow	-7	Tangier	rain	16
Barcelona	rain	9	Cape Town	rain	26	Edinburgh	cloudy	6	Jersey	rain	5	Munich	fair	-2	Tel Aviv	sun	18
									Karachi	fair	29	Nairobi	shower	25	Tokyo	fair	12
									Kuwait	sun	19	Naples	rain	15	Toronto	cloudy	3
									L. Angeles	cloudy	18	Nassau	shower	27	Vancouver	rain	7
									Las Palmas	rain	21	New York	shower	8	Venice	rain	6
									Lima	sun	23	Nice	rain	12	Vienna	snow	-1
									Lisbon	fair	8	Nicosia	sun	17	Warsaw	fair	-7
									London	rain	4	Oslo	fair	-1	Washington	cloudy	11
									Lux.bourg	cloudy	0	Paris	fair	2	Wellington	fair	19
									Lyon	cloudy	6	Perth	fair	26	Winnipeg	cloudy	-14
									Madeira	rain	18	Prague	cloudy	-4	Zurich	cloudy	-1



FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

Olivetti issue may place 70% abroad

Overseas investors may own as much as 70 per cent of Olivetti after completion of the Italian computer group's L2,257bn ($1.4bn) rights issue, Mr Carlo De Benedetti, chairman, said. The capital increase, aimed at relaunching Olivetti as a broad-based information technology and telecommunications group, closes today. Page 16

Czech fund sales set record for market
Ceska Sporitelna, the Czech bank, said it was selling 40 per cent stakes in two investment funds which it manages – Cesky SPIF and Vynosovy – to Bankers Trust, the US investment bank. The value of the combined stakes is Kcs6.7bn ($252m), making this the largest transaction ever on the Czech capital markets.

Siemens sees 25% advance this year
Siemens, the German electronics group, expects another strong rise in earnings despite the slowdown in the German economy, predicting a rise in net profits of between 20 per cent and 25 per cent for the current financial year. Page 16

Hafslund to continue with business split
Hafslund Nycomed, the Norwegian group which last month called off a merger with Ivax, the US pharmaceutical company, said it planned to go ahead with the separation of its healthcare and energy businesses. Page 16

SAS expects to rise above forecasts
Scandinavian Airlines System is poised to exceed its forecast of full-year profits of at least SKr2.5bn ($376m), despite a series of strikes which have cost it SKr460m in 1995, according to company executives. Page 17

Pechiney agrees US subsidiary sale
Pechiney announced it had finalised the sale of its US turbine subsidiary to a US consortium for $750m, concluding an asset sale programme which had brought a net gain of about FFr1bn ($200m) this year for Pechiney International, the packaging arm of the French aluminium group. Page 17

Israeli bank bidders drop sale opposition
Two international investor groups participating in a government tender to buy a controlling stake in Bank Hapoalim, Israel's most profitable banking group, have dropped their opposition to recommendations forcing the bank to sell its non-financial assets. Page 18

Asda backs 27% rise with promotion
Asda, the UK supermarket chain, will this weekend accept money-off vouchers issued by rivals in all stores. News of the promotion came as Asda beat expectations with a 27 per cent increase in interim pre-tax profits to £138.3m ($218.5m). Page 19

Egyptian cotton policy in a tangle
Egyptian cotton has been conspicuous by its absence from world markets this year because of local politics and teething difficulties in liberalising the marketing of the crop. Page 21

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
BMW	761	+	8.5
Karstadt	591	+	11.5
Wella	718	+	11
Falls			
Asko Prf	670	−	20
Bilf & Berg	532	−	13
Lahmeyer	526	−	15
NEW YORK ($)			
Rises			
Merck	65½	+	1⅜
Falls			
Boeing	74⅝	−	1⅜
Cisco Sys	73⅜	−	4
Intel	60⅞	−	2
Motorola	57⅞	−	2⅞
Nokia ADR	33⅛	−	12⅛
LONDON (Pence)			
Rises			
Br Borneo	320	+	33
Forward Grp	553	+	58
Regent Inns	654	+	25
Tomkins	284	+	15
Falls			
Acatos&Hutch	225	−	43
Phonelink	200	−	25
TORONTO (C$)			
Rises			
Glamis Gold	9⅛	+	⅝
Metrowerks	19½	+	1½
Spar Aero	20⅝	+	1⅜
Falls			
Biochem Pharm	45⅛	−	2⅝
Cinemat Comm	21⅛	−	1⅞
[illegible]	[illegible]	−	[illegible]
PARIS (FFr)			
Rises			
[illegible]	[illegible]	+	[illegible]
Air Liquide	825	+	22
BNP	230.9	+	11.7
LVMH	990	+	16
Lyons Eaux	459.8	+	15.9
Falls			
Chargeurs	1017	−	23
TOKYO (Yen)			
Rises			
Chiyoda Corp	994	+	34
Chuo T & B	900	+	39
Dai Tokyo F&M	750	+	35
Koyo Seiko	825	+	34
Tokico	565	+	37
Falls			
Toshiba Plnt	845	−	25
HONG KONG (HK$)			
Rises			
Chen Hsong	3.925	+	0.27
Grand Orient	2.75	+	0.17
Lucky Man Prp	7.0	+	1.45
Falls			
Hysan Dev	19.9	−	0.28
Shun Tak Hld	5.4	−	0.15
TV Broad	27.05	−	0.60
BANGKOK (Baht)			
Rises			
Eastern Wire	55.5	+	5.0
Hua Thai Mfg	61.5	+	5.5
Siam Food Prd	59.0	+	5.0
Falls			
[illegible]	[illegible]	−	8.0
[illegible]	[illegible]	−	8.0
[illegible]	[illegible]	−	2.5

New York and Toronto prices at 12.30pm.

Nokia warning hits mobile phone shares

By Hugh Carnegy in Stockholm

Shares in makers of mobile telephones slumped yesterday when Nokia warned of a fall in profits in the final four months of the year.

The surprise announcement by the Finnish group reignited fears that the spectacular rates of growth in demand for mobile telephone systems and handsets over the past three years were cooling, especially in the US. Although Nokia denied that slowing growth or lower margins in mobile telephony were behind its problems, its statement sparked selling in high-tech stocks.

Nokia American Depositary Receipts slumped 30 per cent by lunchtime in New York, falling $12⅛ to $33⅛. The Nokia statement came after trading in Helsinki closed, but its shares in Stockholm fell SKr42 to SKr300.

The sell-off also hit Nokia's rivals, Motorola of the US and Sweden's Ericsson. Motorola shares were down $2⅞ to $57⅞ at midday in New York, while Ericsson ADRs fell $1⅞ to $19⅝.

Nokia, the world's second-largest supplier of mobile handsets after Motorola, said growth and profitability in its mobile phones division, the engine behind its rapid expansion since 1993, had "developed somewhat below plan".

It also warned of a full-year loss in consumer electronics. As a result, pre-tax profits in the last four months were expected to be below last year's FM1.75bn ($417m). Profits in the first eight months grew 58 per cent to FM3.6bn.

Although Nokia shares had fallen some 40 per cent since September as scepticism grew about its ability to sustain profits growth, analysts had remained positive about the company's outlook. But they were shocked by yesterday's sudden announcement, which followed remarks on Wednesday by Mr Jorma Ollila, chief executive, that gave no indication of trouble. He said demand in the US had picked up recently after a slowdown earlier in the year.

"They have completely blown their credibility with US investors," said one London-based telecoms specialist.

Nokia indicated that the biggest problem lay in the consumer electronics division, which accounts for only 10 per cent of its business and which has been plagued by losses in the European television market.

The company added that the problems in the mobile telephone division were internal "hiccups" in Nokia's production process associated with its rapid expansion. Shortages of key components and other logistical difficulties had led to the shortfall in performance.

Nokia insisted the outlook for 1996 was strong and said it was well placed to improve its market position worldwide. It said it was gaining market share in all its main product categories.

Ericsson, the leading supplier of mobile infrastructure and third largest handset supplier, moved to reassure investors, saying its sales had developed "entirely according to plan" and it had made no changes in its forecasts.

Lex, Page 14

Mexico helps out Banamex with $2bn loans deal

By Leslie Crawford in Mexico City

Banamex, Mexico's leading commercial bank, yesterday sold 15bn pesos ($2bn) of its non-performing loans to the government. It is the strongest indication of the damage Mexico's recession and financial turmoil have wrought on the banking system.

Banacci, the financial group that owns Banamex, has agreed to inject 8.5bn pesos, or just over $1bn, of fresh capital into the bank in return for being allowed to offload its problem loans on to the government.

This year, as mounting loan defaults began to threaten the solvency of the banking system and five banks were placed under central bank intervention, the government decided on a scheme which allowed banks to get rid of their non-performing loans if they agreed to recapitalise their institutions.

Banamex is the eighth bank to seek government help in cleaning up its loan portfolio this year. It is by the far the biggest transaction so far.

The sale of $2bn of commercial and industrial credits represents about 12 per cent of Banamex's total loan portfolio.

"We are happy the government has taken the courageous and realistic decision to open the loan sale scheme to all banks, not only the ones which are in trouble," Mr Jorge Hierro, Banamex's financial planning director, said yesterday. "It is a decision that strengthens the banking system and will promote a faster economic recovery."

Mr Hierro said Banacci had already raised half the $1bn of capital it must inject into Banamex before the end of 1996. The remaining $500m would be raised through a share issue and placement of subordinated debt.

Bancomer, Mexico's second-largest bank, is understood to be negotiating the sale of approximately $600m of problem loans to the government.

The government has justified the wholesale purchase of bad loans as the lesser of two evils: without it, say banking officials, many banks would fail and the government would be forced to take over shareholder control of banks that were privatised only three years ago.

The banking system's past-due loans have more than doubled since the beginning of the year, reaching 120bn pesos, or 17.22 per cent of the total loan portfolio, at the end of September. Problem loans represent more than twice the banking system's capital base of 56.3bn pesos.

The government's latest estimate of the fiscal cost of the rescue plan for banks and their debtors totals 89bn pesos, or 5.1 per cent of gross domestic product. However, private sector economists believe the figure underestimates the final cost of the financial bail-out.

The government is purchasing the non-performing loans of Banamex and other banks with 10-year government bonds, with which it hopes to amortise the cost of the bank bail-out over time.

FDA set to approve Glaxo and Astra drugs

By Daniel Green in London

The US Food and Drug Administration is set to approve a new generation of ulcer treatments in a move that will strengthen the position of Swedish company Astra and Glaxo Wellcome, of the UK, in the market.

An FDA advisory committee has recommended the approval of the use of antibiotics with Astra's Losec and Glaxo's Tritec. The FDA almost always follows such advice.

The use of the antibiotics promises to cure many ulcers and could lead to these two companies dominating the $9bn-a-year global ulcer market.

It should help Glaxo Wellcome offset the decline in sales of its biggest product, Zantac, the world's biggest-selling medicine which is also an ulcer treatment.

Zantac sales are under pressure from Losec, which uses a newer technology to heal ulcers that can be more effective. In addition, one of Zantac's US patents expires in 1997 which is likely to allow other manufacturers to launch cut-price copies.

Tritec, a modified form of Zantac called Pylorid outside the US, has patent protection until 2008. Losec is protected until 2000.

The FDA committee decision is also a lift for Abbott Laboratories, the US drugs company whose antibiotic Biaxin was picked to be given to patients with Losec and Tritec. However, analysts believe that approval signals the eventual decline of the ulcer market.

"The combination therapy will mean replacing a 12-month course of an anti-ulcer drug with a one-month course of the drug plus an antibiotic," said Mr Stuart Adkins of Lehman brothers, the securities house.

Tests show the new combinations to be more than 90 per cent effective in eliminating the bacteria, called *helicobacter pylori*.

FDA approval would also create a market in the diagnostics for quick and cheap ways of detecting the bacteria. There will still be a market for Losec and Zantac to treat ulcers or excess stomach acid acidity unrelated to *helicobacter pylori*.

Philip Coggan reports on the rollercoaster ride that has shed bonds of their safe image

Caution thrown to the wind

Bonds are supposed to be safe, cautious investments. The kind you lock away in a drawer or recommend to widows and orphans.

But the last three years have given investors a rollercoaster ride. Yields fell in 1993, soared in 1994 and have plummeted again this year. The yield on the benchmark 30-year US Treasury bond, which reached 5.78 per cent in October 1993, is once more flirting with 6 per cent.

The question for 1996 is whether the market could be about to reverse again. In late 1993, speculative investors were "playing the curve", borrowing at low US interest rates and investing at higher bond yields for an apparently certain gain. There are some signs that speculators are now attempting the same trick, but this time they are borrowing in yen to buy US bonds.

The 1993 bull market came to an end once signs of economic growth and inflation appeared and the US Federal Reserve started to raise interest rates. But conditions appear to be different this time.

"Back in 1993, the US economy was still accelerating and commodity prices were starting to rise," says Mr Steven Nagourney, global strategist at Lehman Brothers in New York. "Now producer price pressure has been easing, there is no significant upward pressure on wages and we are set to see significant monetary easing."

Economic growth is slowing around the world – German gross domestic product was stagnant in the third quarter – and there is little sign of an inflationary upturn.

Rather than seeing 1995 as a repeat of 1993, an alternative view is to see 1994 as an aberration in a long-term bond bull market. The bullish argument for bonds owes much to lower inflation. After the excesses of the 1970s and 1980s, the peak in the inflation cycle has been much lower in the current decade.

Governments have adopted inflation targets and made moves towards granting central bank independence. Furthermore, the last three years have seen attempts to reduce public sector deficits.

Throw in flexible labour markets, cost competition from developing countries in a more open world trading system and it is plausible to argue that inflation is unlikely to be a threat in the medium term.

It is tempting to conclude, therefore, that bond yields have further to fall. Even with the 30-year trading at 6 per cent, with inflation under 3 per cent, the US long bond offers a real return of more than 3 percentage points.

The case is even stronger for such a pillar of inflationary rectitude as Germany where, with inflation under 2 per cent, the 10-year bond is offering a real yield of more than 4 percentage points.

However, the prospects for European monetary union, in which Germany may be forced to carry the tab for its weaker neighbours, may be restraining yields from falling further. "German bond yields are not discounting expectations for German inflation but unified European inflation," says Mr Nigel Richardson, head of bond research at Yamaichi.

It may, in any case, be hard for a modern investor to imagine that yields can decline further. But, looked at from a historical perspective, high bond yields are an exception, confined to the post-1970 era.

Figures from Alpha Global Fixed Income Managers show that the US long bond yield averaged less than 4 cent in the 1910-1969 period. Real bond yields have occasionally been higher than they are now, but only during periods of deflation such as 1870-1889 and 1910-1929.

If the world is returning to a 1950-style inflation rate, bond yields could have further to fall. However, a lot could go wrong. Ms Peg Hadzima, director of global bonds research at Scudder Stevens & Clark in Boston, says: "So much good news is built into bond prices that they're vulnerable to a surprise."

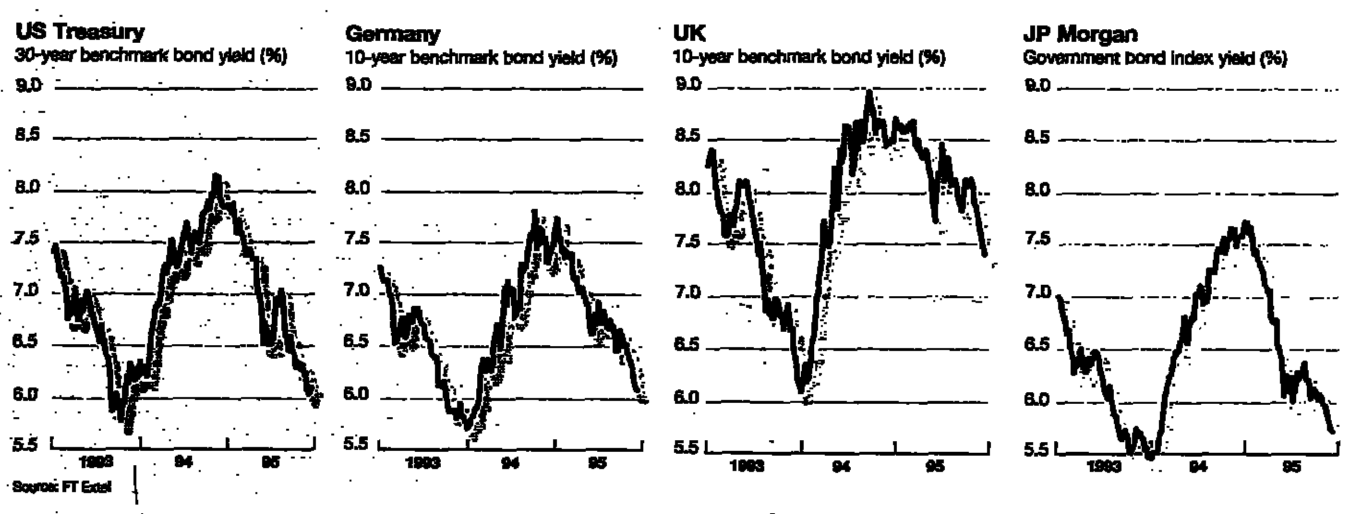
The rally in US bonds seems partly predicated on expectations that President Clinton and the Republican Congress will agree on a deal to bring the Budget into balance by 2002.

US politicians have disappointed investors many times before. There are also worries about the apparent dependence of the US bond market on foreign investors, who bought about $76bn of Treasury issues in the first half of 1995.

Fiscal reforms in Europe have run into trouble, notably in France and Italy, as governments struggle to meet the strict Maastricht criteria on debt. There must be questionmarks over whether countries will be willing to court electoral unpopularity by continuing to attack the deficits. A shock on the inflation front – perhaps a jump in the oil price – is another possibility.

One thing seems certain. A quiet year, of the kind bond markets are supposed to have, seems the least likely option.

Taking turns



Source: FT Extel

EBS and Minex agree merger

By Philip Gawith in London

EBS and Minex, two of the three leading international providers of electronic foreign exchange broking systems, have agreed to merge their operations in a move which will strengthen their position against Reuters.

Minex will become a partner in EBS, joining the 13 foreign exchange banks that helped set up EBS. The main shareholders in Minex are: Tokyo Forex, a broker; KDD, the telecommunications company; and Dow Jones Telerate, the financial information service. The deal is still subject to regulatory approval.

The proportion of foreign exchange deals done through electronic matching systems has grown strongly over the past year. This trend has put downward pressure on margins in the spot foreign exchange business, forcing banks to reassess their trading practices. Growth has also come at the expense of traditional voice brokers, hastening rationalisation in that sector.

EBS is strong in London and European markets. The two groups' combined liquidity will bolster their competitive position in Asian markets, where EBS is the dominant dollar/D-Mark broker, while Minex is the market leader in dollar/yen.

"It will make us the biggest and the best broker in Asia," said Mr Peter Bartko, EBS chairman.

Since its launch in September 1993, EBS has established itself as the leading electronic broking system. But it has a powerful rival in Reuters, and the merger is a response to the competitive threat posed by Reuters' 2000-2 electronic matching system. Systems such as this allow electronic matching of deals without any human intermediary. This makes them easy to use, although their success depends on the liquidity they are able to command.

While EBS has attracted considerable liquidity in a number of currency pairs, Reuters has big cost and deployment advantages. EBS's concern was that the weight of Reuters' customer base would overwhelm it, ultimately taking Reuters past EBS in volume terms and eroding EBS's liquidity advantage.

Background, Page 20

EUROPEAN NEWS DIGEST

Fiat chooses new chief executive

The Fiat board last night nominated Mr Paolo Cantarella as chief executive of the Turin-based automotive group as part of a management shake-up dictated by the impending departure of chairman, Mr Giovanni Agnelli.

The 51-year-old Mr Cantarella has been heading Fiat's core business car division since 1989 and has been widely tipped to succeed Mr Cesare Romiti. He was publicly singled out on Monday when Mr Agnelli announced before a meeting of 500 Fiat managers that he intended to step down and would be replaced by the 72-year-old Mr Romiti.

The timing of the shake-up in Italy's largest private industrial group has come as a surprise. Although the company has insisted Mr Agnelli's departure and the elevation of Mr Romiti had been carefully planned, this has not dispelled the impression that Fiat has acted in some haste.

When Mr Romiti's promotion to the chairmanship was announced it was not made clear whether he would retain his executive role. Although close to the retirement limit of 75 his presence was considered necessary to guide the group through the transition period as management shifted to a new generation and allowed a younger member of the Agnelli family to take the helm. Mr Cantarella has earned his spurs by being behind the development of the highly-successful Punto, Bravo and Brava models. More appointments are now expected as part of a broader shake-up with a new team likely to be in place perhaps as early as March. Mr Agnelli has yet to indicate when he would relinquish the chairmanship and when Mr Romiti would take over.

Robert Graham, Rome and Andrew Hill, Milan

Accor in Japanese hotels deal

Hokke Club, the Japanese hotels group, said it had reached agreement with Accor, the French company, on the joint operation of Hokke's business hotels in Japan. Hokke Club's 13 hotels would be remodelled under Accor's brand name, it said. The hotels include one top-of-the-range hotel and 12 economy-style hotels with 2,200 rooms. Two small establishments in India and Nepal are also included in the deal.

Accor would invest in operation and remodelling of Hokke's hotels. Mr Sadano Kojima, Hokke Club president, said: "Initially, there will be no equity participation, but for the future, as we deepen joint management activities, such a possibility exists." *AFX Asia, Tokyo*

Kaufhof sales advance 3.4%

Kaufhof, the German retail group, said sales rose 3.4 per cent to DM15.9bn ($10.96bn) in the nine months to September. It expected full-year operating profits to be at least as high as in 1994 when it posted sales of DM26.35bn and net profits of DM137.3m. It expected full-year sales at its department stores and mail order divisions to be below the previous year, while sales at the specialist store division are expected to show clear sales growth.

In the first nine months, sales at its specialist store division climbed 12.6 per cent to DM6.8bn from DM6.04bn a year earlier. Sales at its department stores, including Horten the department store chain acquired last year, fell 3.2 per cent to DM7.8bn in the first nine months from DM8bn a year earlier. The decline was mainly due to continuing weak consumer demand, renovation at some stores, and the company's decision to rent out some of the floor space previously used by its own food and consumer electronics division. At the company's mail order service division, sales fell 4.2 per cent to DM847m. At its Vobis-Microcomputer group, sales rose 20.7 per cent to DM1.9bn. *AFX News Cologne*

Foreigners set to own 70% of Olivetti

By Andrew Hill and Peter Martin in Ivrea

Foreign investors may own as much as 70 per cent of Olivetti after completion of the Italian computer group's L2,257bn rights issue, Mr Carlo De Benedetti, chairman, said yesterday.

The capital increase, aimed at relaunching Olivetti as a broad-based information technology and telecommunications group, closes today.

But Mr De Benedetti yesterday declared the issue a success and said it would transform Olivetti from "a family-controlled company into a real public company".

Most analysts had predicted that the consortium of banks underwriting the issue would take up at least some of the issue.

In an interview at Olivetti's headquarters, Mr De Benedetti said the outcome "would surprise many people", and that he himself was surprised with the demand for the shares. "The banks won't have one share – every one will be subscribed for by the market and especially by foreign investors," he said.

US fund managers are expected to take up many of the 2.26bn new shares issued, following an aggressive sales campaign by Mediobanca, the Milan merchant bank which was leading the underwriting consortium, and Lehman Brothers of the US, which would have had to buy 120m of the shares if the rights issue had failed.

Cir, one of the two family holding companies through which the De Benedetti family has controlled Olivetti, will not take up all its rights and its stake is expected to fall from 21 per cent to 16 per cent. The banks refused to underwrite rights issues planned by Cir and its controlling shareholder, Cofide, which would have allowed the De Benedetti family to maintain the same level of control.

Mr De Benedetti said that although he would have preferred the original plan for three simultaneous rights issues, as chairman and chief executive of Olivetti he was happy that outside investors were likely to increase their influence in the running of the company.

"To raise the money, Olivetti committed itself to cutting costs – partly through an unpopular new round of redundancies – turning round its loss-making personal computer business, and accelerating its move into the telecoms sector. It expects to record its first net profit for five years in 1996 and pay a dividend on those profits in 1997."

Olivetti's shares closed yesterday at L1,200, against the rights issue price of L1,000.

Carlo De Benedetti: happy with influence from outside investors

Hafslund Nycomed will be split into two

By Hugh Carnegy

Hafslund Nycomed, the Norwegian group which last month called off a merger with the US pharmaceutical company Ivax, said yesterday it planned to proceed with the separation of its healthcare and energy businesses as it had intended under the merger proposal.

The company is to propose to shareholders that the group is split into two – Hafslund, covering energy operations, and Nycomed, covering pharmaceutical operations. Shareholders would receive one share in each of the new companies for each Hafslund Nycomed share held.

Hafslund Nycomed, Norway's biggest healthcare group, was forced to back out of the merger with Ivax because of strong objection by a minority of mainly state-controlled institutional shareholders concerned about the potential migration abroad of the company's operations.

The two parts of Hafslund Nycomed have little in common. In 1994, the energy division, which generates and transmits electrical power, contributed NKr1bn ($156m) to group sales of NKr7bn and NKr234m to group operating profit of NKr2.43bn. Nycomed's operations are based on diagnostic imaging and generic drugs.

After the split, Hafslund will include the current group's stock investment portfolio, worth about NKr1bn. It will carry some NKr300m in debt – although Hafslund Nycomed said further details of the balance sheets for the split companies were not yet available.

The separation proposal will require a two-thirds majority from Hafslund Nycomed shareholders, the same requirement the company failed to achieve for the Ivax merger.

Analysts said the split would make Nycomed more exposed as a medium-sized operator in the fast-consolidating pharmaceutical industry – and therefore more prone to a bid or merger. Ivax has said it hopes to revive its merger plan some time in the future.

GAN to prepare for sell-off with FFr9bn sale

By Andrew Jack in Paris

Groupe des Assurances Nationales (GAN), the troubled French state-owned insurance group, yesterday announced its intention to launch a programme of up to FFr9bn ($1.8bn) in additional asset sales to pave the way for privatisation.

Mr Jean-Jacques Bonnaud, chairman, also said for the first time that the group was willing in principle to cede as soon as next year more than 50 per cent in CIC, the banking group it controls, to help raise funds.

The details followed a board meeting yesterday at which Mr Bonnaud said the representative of the French state, the majority shareholder in the group, had fully endorsed GAN's plans for restructuring ahead of a sell-off.

The support from the state follow findings in a report submitted by Morgan Stanley, the US investment bank, which the government commissioned to examine the group's financial health and the possible ways in which it might be privatised.

It came despite recent speculation that GAN might be broken up rapidly into different parts – including its international insurance network and banking assets – and sold off to a range of purchasers.

Mr Bonnaud said the additional assets to be sold had not yet been determined, but could include participation in other companies, property and businesses in France and elsewhere. The sales would take place over the next four to five years.

He believed the reason for the acceleration in asset sales suggested the state had decided it was more firmly committed to a privatisation as soon as possible – perhaps during 1997.

The chairman said sales were also triggered by estimates of a further deterioration in the value of the group's property assets and of capital gains on sales.

He said he intended to negotiate a restructuring of FFr3bn in loans from banks to support its FFr13bn off-balance sheet "defeasance" of non-performing loans hived off as part of a restructuring earlier this year.

He also appeared to lessen his past demands that another investor taking a stake in CIC would also be required to become an important investor in GAN when the company was sold. "It would be good," he said. "It would not be a necessary condition."

However, he stressed GAN would still want to retain adequate control to be able to ensure that it could continue its bancassurance operations, through which it sells its insurance policies through CIC branches. Last year it received FFr8bn in premiums in this way.

Two new executives appointed at Bremer Vulkan

By Michael Lindemann in Bonn

Bremer Vulkan, the ailing German shipbuilding group which has forecast operating losses of at least DM200m ($137.9m) this year, yesterday appointed two new leading executives and said it would start talks with its banks to guarantee the DM750m it has undertaken to invest in three east German shipyards.

Mr Udo Wagner will become chief executive early next year, succeeding Mr Friedrich Hennemann who was forced out by the group's banks shortly after losses emerged in September.

Bremer Vulkan shares fell 90 pfennigs to close at DM40.10. They have slumped from a high this year of DM97.20 as news of the losses emerged.

Mr Wagner is chief financial officer at the German subsidiary of Asea Brown Boveri, the Swiss-Swedish engineering group. He will be joined at Bremer Vulkan by Mr Hero Brahms, an executive from the Kaufhof retail group who takes over as head of the company's supervisory board, the non-executive body which oversees the management board.

Bremer Vulkan is one of Europe's biggest shipbuilding groups but there are fears it might have overreached itself with commitments to shipyards in eastern Germany at a time when its core activities, shipbuilding and engineering, have suffered setbacks.

Mr Günter Smidt, acting chief executive, yesterday said the company expected operating losses of at least DM200m for this year. These stem mainly from Dörries Scharmann, an engineering subsidiary.

Bremer Vulkan said it had resolved its unspecified short-term liquidity problems and had begun talks with Dresdner Bank and other banks to find the DM750m it is committed to invest in three east German shipyards by 1997.

The company declined to say how many of its 23,000 jobs would be shed during the restructuring which seems likely if the group is to pull back into profit.

The European Commission said this week that it would examine the way in which Bremer Vulkan has spent DM900m of investment grants destined for the ailing yards in the east German ports of Rostock, Wismar and Stralsund.

INTERNATIONAL COMPANIES AND FINANCE

Siemens upbeat despite slower German economy

By Wolfgang Münchau in Munich

Siemens, the German electronics group, expects another strong rise in earnings in spite of the slowdown in the German economy, predicting a rise in net profits of between 20 per cent and 25 per cent for the current financial year, similar to last year's increase.

Mr Heinrich von Pierer, chairman, said yesterday that the restructuring efforts of the past few years "are now kicking in". He said the process would continue until Siemens reached its target of a 15 per cent return on equity, compared with 9.4 per cent in the year ended in September.

The positive forecasts follow a strong performance in 1994-95, when Siemens increased net profits 28 per cent to DM2.08bn ($1.43bn). New orders were up 4 per cent at DM91.9bn, and are expected to rise to between DM95bn and DM97bn in the current year.

Mr Karl-Hermann Baumann, finance director, said that "despite the difficulties of making projections on the basis of the first two months of the current year, we can say that the results so far suggest that we are on target to reach our forecasts".

The forecast boost in earnings will stem to a large degree from improved productivity, which Siemens hopes to raise by 9 per cent, equivalent to a cost saving of DM8bn. In 1994-95 productivity increased by 8 per cent.

At a news conference yesterday, Mr von Pierer sounded a note of caution with a comment that Siemens' optimistic business outlook was consistent with increasingly pessimistic economic expectations in Germany, since the business cycle in the electronics and electro-technical industries follows the general economic business cycle with some delay.

He said the increase in earnings – a result of productivity measures and a significant boost in earnings from its semiconductor activities – was no "reason to celebrate".

He said: "We mustn't forget that we are still some way off from our medium-term target of a 15 per cent return on equity. To have achieved that goal this past year we would have had to generate roughly DM3.5bn in net income."

The restructuring process is likely to continue, although restructuring charges are forecast to fall from DM2.7bn to about DM2.2m in the current financial year.

The restructuring measures have so far led to a reduction in Siemens' German workforce by 40,000 to about 213,000.

Mr von Pierer said: "We still have our homework cut out for us. Major restructuring measures are being implemented in some of our operating units."

However, unlike many leading German industrialists, Mr von Pierer dismisses widespread criticism of German competitiveness and the country's innovative capabilities as mistaken. "There is a lot of whining about the innovative capabilities within German industry. This is mostly exaggerating, and in our particular case untrue," he said.

During the past business year, Siemens' components divisions raised pre-tax profits from DM300m to DM1.02bn, to which the semiconductor business contributed the bulk. This was a heavy loss-maker during the late 1980s and early 1990s.

Heinrich von Pierer: efforts on restructuring 'now kicking in'

Siemens Nixdorf Informationssysteme (SNI), the computer maker, also made a modest profit, the first for several years, while the transportation division was the only division to report a loss, with a pre-tax deficit of DM18m.

Ms Nathalie Grasegger, analyst at Vereinsbank Research, said: "The forecast did not surprise us in the least. What did surprise us was the performance in the energy divisions (KWU), which did better and which appears to have managed the turnaround earlier than we had expected."

● Amper, the Spanish electronics group, and Siemens of Germany are renegotiating the wide-ranging strategic accord reached between them earlier this year, which may delay its finalisation by two months, reports AFX News in Madrid.

According to a report in the financial daily Cinco Dias, Siemens is pressing for more control of Amper unit Amper Datos, in which it was to take a 10 per cent stake under the terms of the original agreement.

In July, the two companies signed a pre-agreement whereby they would form a new company – Siemens Telecommunications Espana – which would consist of Amper's Amper Telematica unit and all of Siemens' Spanish telecom activities, except those related to its mobile telephone business.

In addition, the German company was to take a 51 per cent stake in the Spanish company's Amper Elasa public telephones unit.

According to Cinco Dias, Siemens is now questioning Amper's profit forecasts for Amper Elasa, and considers the original amount of its planned investment in Amper of about Pta9bn ($73m) to be too high. Amper's share price was sharply lower on the news, closing down Pta105 at Pta1,370.

An analyst at brokerage Benito y Monjardin said: "This is bad news for Amper, although it was known the negotiations had run into difficulties. We had been expecting the deal to be closed by February. This news increases the stock's risk and we expect it to under-perform near-term."

SAS upgrades profits forecast for year

By Hugh Carnegy in Stockholm

Scandinavian Airlines System (SAS) is set to exceed its forecast of full year profits of at least SKr2.5bn ($372m) despite a series of strikes which cost it SKr450m in 1995, according to company executives.

The result, built on a combination of heavy cost cutting and high sales of full-fare tickets, will consolidate the return to a profit of SKr1.5bn in 1994 after four successive years of losses.

Mr Jan Stenberg, chief executive, admitted this week the resurgence had been achieved at some cost to service quality which now needed to be addressed. He also said negotiations had begun to streamline the unwieldy labour relations structure within SAS, which includes 43 different unions, to avoid a repeat of this year's strikes by pilots and cabin staff.

The profits surge also comes just before the scheduled start next month of a strategic operating alliance with Germany's Lufthansa which is aimed at sharpening the two airlines' competitive edge against other big European carriers.

The co-operation deal, based on a marriage of the Lufthansa and SAS route networks, will give the two more than 90 per cent of passenger traffic between Germany and the Scandinavian countries but has yet to be approved by the European Commission.

But SAS officials said discussions with Brussels had been completed and they were confident of receiving a go-ahead from the Commission by the end of January, on condition that SAS and Lufthansa agreed to concede up to 20 per cent of their joint slots for Scandinavian-German traffic at Frankfurt, Dusseldorf, Copenhagen, Oslo and Stockholm airports.

SAS has reaped the benefits of SKr6bn cost-cutting programmes to stem losses of SKr3.3bn run up between 1991 and 1993. Overall, staff levels have been cut to fewer than 20,000 from 25,000 in 1991.

This year, profits have also been lifted by improved yields, achieved by increasing the number of passengers travelling in its Euroclass business category at non-discounted rates. Profits in the first nine months rose from SKr1.2bn to SKr2.1bn, on sales up 7 per cent to SKr26.7bn. The number of passengers has not risen significantly – although SAS expects a 10 per cent increase in volumes in 1996.

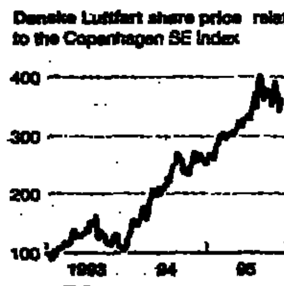
SAS has begun a costly fleet replacement scheme, ordering up to 70 mid-sized Boeing 737-600 aircraft earlier this year in a programme set to cost some SKr15bn. It says it is likely to decide in 1997 to spend a similar sum on replacing and augmenting its 15-strong long-haul fleet.

COMPANY PROFILE:
SAS

Market capitalisation	$704.5m
Main listing	Copenhagen
Historic P/E	10.8
Gross yield	1.5%
Earnings per share, 1994	DKr41.5
Current share price	DKr467.5

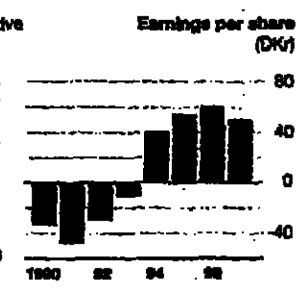
Jan Stenberg
chief executive

Danske Luftfart share price relative to the Copenhagen SE Index



Source: FT Extel

Earnings per share (DKr)



Source, UBS FORECASTS

Cultor spends FM1.5bn on Pfizer food science side

By Christopher Brown-Humes in Stockholm

Cultor of Finland said yesterday it would become one of the world's leading food ingredients companies after agreeing to buy the food science activities of Pfizer of the US for FM1.5bn ($344m).

Mr Björn Mattsson, Cultor chief executive, said the deal would substantially strengthen the group's position in the US market and broaden its international network.

It would give the group a strong global position in confectionery, baked products, chewing gum, soft drinks, meat products and dairy and ice cream products, he added.

Mr William Steere, Pfizer chief executive, said the sale meant the group could focus exclusively on its healthcare businesses.

Pfizer Food Science Group (FSG), with headquarters in New York, achieved operating profits of $31m on sales of $304m last year. Apart from North America, it has good positions in Europe, Latin America, Japan, south-east Asia and Australia, supplying reduced calorie bulking agents, fat replacers, flavours, food protectants and speciality ingredients.

Cultor, with 1994 sales of FM6bn, has production units in 12 countries and sales in more than 50 countries.

Buying FSG will provide an additional six production sites, four in the US and two in France.

Mr Mattsson said the purchase would help the group to shift emphasis from bulk commodities to value-added products and enable it to respond more effectively to industry trends, including healthy eating.

"Cultor's strengths lie in microbiology, metabolic engineering, enzyme technology and separation technology, especially crystallisation. FSG is strong in organic chemistry, extraction technologies, food systems and product screening," he said.

He said the group hoped to avoid the problems which have hit other Finnish groups, notably Amer and Huhtamaki, in the US.

These have stemmed from trying to manage at a distance businesses which are exposed to highly competitive and fickle consumer markets.

"We are aware of the risks but we feel we know the US market quite well. We have been manufacturing there since 1984," said Mr Mattsson.

Cultor said the deal, to be financed by cash and long-term loans, would slightly dilute 1996 earnings but would improve its 1997 figures. Its equity-to-assets ratio will fall from 50 per cent to 40 per cent. The group's shares fell FM4 to FM173.

Pechiney ends disposals with sale of turbine unit

By John Ridding in Paris

Pechiney announced yesterday it had finalised the sale of its US turbine subsidiary, concluding an asset sale programme which has brought a net gain of about FFr1bn ($199m) this year for Pechiney International, the packaging arm of the French aluminium group.

The completion of the deal, which involves the sale of Howmet to a US consortium for $750m, comes as the French group completes the final stages of privatisation. Final results of the issue, due today, are expected to confirm a cool response from investors.

Howmet, which has annual sales of $900m, is being bought by the Carlyle Group, a financial investor in aerospace and defence, and Thiokol, an industrial group with activities from propulsion motors to riveting systems.

The sale follows the disposal of the group's US metal food can and glass bottle businesses. Both were part of Pechiney International, which is 67 per cent owned by the parent company.

Pechiney's accounting for its asset disposal programme was criticised by the French stock market regulator during the privatisation process. The Commission des Opérations de Bourse said it regretted the company had anticipated receipts in its first-half results from transactions which had still to be completed.

Of greater concern to investors has been the weakness of the Paris stock market, the poor performance of previous French privatisation issues and the downturn in the cyclical aluminium market.

Such considerations, along with signs of weak demand, prompted the French government to scale down the size of the operation, cutting a planned capital increase from FFr4bn to FFr2.4bn and reducing the number of shares allocated to institutions.

Banks involved in the deal claim that the tranche of 11.5m shares for individual investors has been fully subscribed. But analysts are more cautious about prospects for the institutional tranche of just over 13m shares.

INTERNATIONAL COMPANIES AND FINANCE

NEWS DIGEST

News Corp to set up executive committee

News Corporation, the media and entertainment group headed by Mr Rupert Murdoch, is to set up an executive committee to determine "strategic directions" for the company. The committee will comprise Mr Murdoch and the heads of the Fox operations in the US, the newspaper and satellite broadcasting units in the UK and the Australian News Limited arm. The aim would be to "strengthen the co-ordination and profitability" of the group's activities.

The members of the committee will be Mr Chase Carey, from Fox Television; Mr Peter Chernin, Fox Filmed Entertainment; Mr Ken Cowley, head of News Limited; Mr Lachlan Murdoch, Mr Murdoch's son who was recently made deputy chief executive of News Limited; Mr Sam Chisholm, chief executive of BSkyB; Mr Les Hinton, chairman of News International; Mr Preston Padden, president of telecommunications, television and corporate communications at News Corp; Mr David DeVoe, finance director of News Corp; and Mr Arthur Siskind, group general counsel.

Analysts agreed the new committee was not a precursor to Mr Murdoch's retirement. One said: "You can look for at least another 10 years out of Rupert." *Nikki Tait and Reuter*

Moore extends Wallace deadline

Moore, the international business forms maker, has extended the expiry date of its US$60 a share bid for all the shares of Wallace Computer of the US to 6pm on December 20. The bid is worth a total US$1.3bn.

The Canadian group said that as from December 11, 14.3m Wallace shares had been tendered under its bid, or 63 per cent of Wallace's total shares outstanding.

At Wallace's annual meeting on December 8, Moore succeeded in replacing the group's president, Mr Robert Cronin, and two other directors by three Moore nominees with a 56.4 per cent vote. However, Moore's bid fell short of the required 80 per cent approval from Wallace shareholders. *Robert Gibbens, Montreal*

PNB lifts price of share offer

The Philippine National Bank, the country's largest with more than 300 branches, said yesterday it had increased the price of its third public share offering because of strong interest from subscribers.

The third tranche, which reduces the government's share in PNB from 57 per cent to 49.8 per cent, will be offered at 260 pesos a share, 18 pesos higher than the original price set on December 4.

A total of 7.2m shares, or 7.2 per cent of the bank's capital, is being sold off, with 25 per cent of the shares reserved for small investors in the form of warrants.

The bank posted net profits of 1.58bn pesos ($60.2m) for the first 10 months of 1995. It did not reveal the equivalent profit figure for the year earlier but said revenues advanced 20 per cent. *Edward Luce, Manila*

NZ brewer resumes dividend

Dominion Breweries, the New Zealand group controlled by Dutch brewer Heineken and Asia Pacific Breweries of Singapore, is to pay a dividend of 2 cents a share, its first since 1991, after reporting a tax-paid profit of NZ$17.3m (US$11m) for the year to September 30, compared with a loss of NZ$93.2m in the previous 15 months.

In the past year, the company, New Zealand's second biggest brewery, has undergone an extensive rationalisation after the change in majority ownership from an Asian Pacific-Brierley joint venture.

The latest profit included an unexpectedly high tax bill of NZ$25m, which included an extra provision of NZ$10m for potential tax liabilities relating to previous years. Operating profit after interest and before tax and non-operating items was NZ$42.8m, compared with NZ$29.4m. Sales for the period were NZ$658.2m, against NZ$872.9m. *Terry Hall, Wellington*

Rigel buys Inverness Petroleum

Consolidation continues in western Canada's upstream oil and gas industry. Rigel Energy is buying Inverness Petroleum for about C$245m (US$178m), bringing the value of mergers in recent weeks to C$1.4bn.

Rigel will double its potential reserves by the friendly share swap. Each Inverness share will be exchanged into 0.625 Rigel shares, providing a premium over Inverness's recent market price. The bid expires January 11, 1996 and requires two thirds acceptance.

The merged company will have annual revenues of about C$250m and will be profitable. *Robert Gibbens*

Vereinsbank abandons attempt to buy Oppenheimer

By Andrew Fisher in Frankfurt and Maggie Urry in New York

Bayerische Vereinsbank has abandoned its attempt to buy Oppenheimer Group, the US securities firm, because US banking regulators would not approve the deal quickly. Permission was required under US rules, which separate commercial and investment banks.

The stance taken by the Federal Reserve, which supervises the US banking industry, is likely to be seen by other non-US banks as a signal they would not be welcome as acquirers of Wall Street investment banks.

The Fed appears to have adopted a stricter line than it has been taking recently. Many had expected the Fed would give Vereinsbank some leeway to do the deal. Bankers said it would make it more difficult for anyone to buy a Wall Street securities firm.

Others suggested the Fed was reacting to the well-publicised losses at Barings, the collapsed UK merchant bank rescued by ING of the Netherlands, and the New York branch of Japan's Daiwa.

Mr Jim Harmon, retiring chairman of Schroder Wertheim, said: "The Fed is taking a very firm position after Barings and Daiwa."

The Fed apparently told Vereinsbank it would not approve the acquisition until it had gone some way towards closing its US commercial banking business, mainly trade financing through branches in New York, Los Angeles and Chicago.

Vereinsbank said it had no certainty it could conclude the deal, even if it went through the expensive "debanking" process. There could have been a year's delay in obtaining approval, which was too long for Vereinsbank.

Many non-US banks have been looking to expand their investment banking activities on Wall Street and had been thought to have an advantage over US banks, which are restricted under the Glass-Steagall law, enacted in 1933.

However, other European banks have been deterred from buying in the US. UBS, the Swiss bank, for example, had been interested in buying Lehman Brothers but was put off by Glass-Steagall considerations.

Repeal of Glass-Steagall has been repeatedly proposed, and earlier this year, it was hoped Congress would pass the necessary legislation. However, the drive for repeal has foundered in recent months.

Vereinsbank, based in Munich, had hoped the deal, which could have cost it up to $500m, would strengthen its presence in asset management and investment banking. Oppenheimer, based in New York, has some $40bn under management and is also a large brokerage. Mr Albrecht Schmidt, Vereinsbank chairman, said recently it hoped to complete its takeover talks with Oppenheimer Group by the end of this year. However, if these did not succeed, "we shall roam the world with open eyes" for another suitable target.

The collapse of the deal leaves Oppenheimer to remain independent. Having talked to a number of potential bidders before accepting the approach from Vereinsbank, it is thought unlikely that a new buyer will now appear.

Entergy wins bid to take over Citipower

By Nikki Tait in Sydney

Entergy Corporation, one of the largest investor-owned utility companies in the US, was yesterday confirmed as the successful bidder for Citipower, the fifth and last of the electricity distribution companies being sold off by the state government in Victoria.

Entergy, which had already been named as the preferred buyer, will pay a total of A$1.75bn (US$1.3bn) – made up of a capital payment of A$1.58bn and franchise fees with a present value of A$173m. The bulk of this – A$1.3bn – will go towards paying down the large debt burden passed on to the current state government by the former administration.

The sale of the five distribution companies has been a highly successful financial exercise for the Victorian government, raising just over A$8bn – which is more than domestic analysts had predicted at the outset. US-based utilities have been involved in all five successful bids, either through consortia also involving Australian interests or on a solo basis.

Yesterday, Mr Alan Stockdale, Victoria's treasurer, said the electricity privatisation programme to date led to a drop in Victoria's net public sector debt from A$32.5m to about A$24.5bn.

Citipower's distribution area covers central Melbourne, including the city's business district, and has about 230,000 customers. Pro forma assets for 1993/94 were put at A$800m.

Entergy's core operations in the US are concentrated on the mid-south, and it services about 2.4m customers in Arkansas, Louisiana, Mississippi and Texas.

The electricity privatisation programme in Victoria will now move on to the generation companies – of which there are also five up for sale. First off the blocks will be Yallourn Energy, which is due to be sold early in the new year.

IBM halves price of Lotus Notes software

By Richard Waters in New York

International Business Machines has more than halved the price of its Lotus Notes software in an attempt to spur much wider use of the computer networking package.

The announcement marks the first concerted attempt by IBM to establish a broader market for the product, which it acquired when it paid $3.5bn for Lotus earlier this year.

Though already used by 3.3m people, the so-called "groupware" product risks being overtaken by cheaper Internet-based software.

By using a browser to navigate the World Wide Web, such as that made by Netscape, computer users can replicate many of the functions of Notes at a lower cost.

Notes allows people using stand-alone personal computers to communicate and work on the same files, and is the biggest-selling product of its type.

"This puts us very much in the middle of Internet," said Mr Michael Zisman, chief executive of Lotus. The Notes applications are available elsewhere on the Internet, he said, but users faced the task of "cobbling them all together".

Under the new pricing structure, the cost of Notes has been cut to $69 for each computer, from $155 before.

The price of the "server" software needed to run Notes has been raised from $275 to $495.

The company said, though, that improvements in the product would allow the server software to link more computers. Also, it will in future have built into it the ability to link Notes to the Internet, a function which currently requires a separate piece of software costing $3,995.

Mr Zisman said the move would be "revenue-enhancing". The product was expected to continue its historic growth rate of more than 100 per cent a year, he said, while the higher price of the server software would partially offset the lower price per user.

Way cleared for Bank Hapoalim privatisation

By Julian Ozanne in Jerusalem

Two international investor groups participating in a government tender to buy a controlling stake in Bank Hapoalim, Israel's most profitable banking group, have dropped their opposition to recent recommendations forcing the bank to sell off its non-financial assets.

The move clears the way for the sale of Bank Hapoalim and removes the uncertainty which has fallen over the privatisation of Hapoalim since a government commission published wide-sweeping recommendations to break the power of Israel's state-controlled banks on the economy.

Both groups said they still wanted to buy Bank Hapoalim but asked the government to extend the timetable for the divestiture of the bank's assets to beyond the end of 1998.

One group is lead by Claridge, an Israeli investment company owned primarily by Canada's Mr Charles Bronfman. The group includes financier Mr George Soros, international investment bank Goldman Sachs, and Mr Ted Aronson of Carnival Corp's Carnival Cruise Lines.

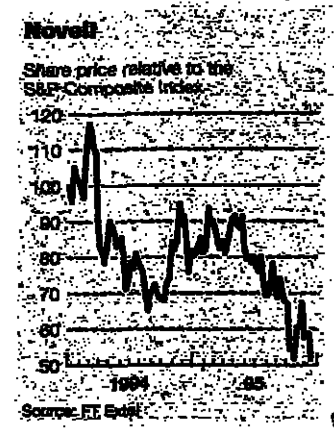
The other group includes Israeli businessman Mr Eliezer Fishman and Bear Stearns, the global investment house.

The bidders had previously said they were reviewing their participation in the wake of the committee's recommendations that included making banks reduce their holdings in non-financial companies to 20 per cent by 1998 and forcing Bank Hapoalim to sell either its 34 per cent stake in Clal Industries or its 23 per cent stake in Koor Industries – both large Israeli holding companies.

The government is seeking to sell up to 40 per cent of Bank Hapoalim to a strategic partner for up to $850m.

A ministerial committee is reviewing the commission's recommendations and will present its decision to the government on December 24.

Novell registers increase in net income



By Paul Taylor

Novell, the leading personal computer networking software company, yesterday reported an increase in full-year net income to $338m, or 17 per cent of revenue, compared with $207m, or 10 per cent of revenue, in 1994.

Revenues for the group, which announced in October it would withdraw from the market for PC applications programs and sell its business applications division, were $2.04bn for the year to October 28, up from $2bn a year earlier.

The company yesterday confirmed it was actively negotiating and expected a sale of the division before the end of January.

On a per-share basis, net income rose from $0.56 in 1994 to $0.90 in 1995. On a pro forma basis excluding a non-recurring Unix licence buy-out and acquisition-related expenses, year-ago revenues totalled $1.92bn and earnings were $298m, or $0.81 a share.

The full-year advance came despite a lacklustre fourth quarter, which, as expected, saw revenue fall from $486m to $481m. Net income was $59m, or $0.16 a share, up from $20m or $0.06 a year before, because of acquisitions.

On a pro forma basis excluding non-recurring acquisition-related expenses, 1994 fourth-quarter earnings were $61m, or $0.17 a share.

Revenue from Novell's core NetWare network operating system software increased 19 per cent to $1.03bn. The group's other network and systems software revenue grew to more than $600m. These gains were offset by a $122m decline in personal productivity applications, which ended the year at $407m.

Goldman, Merrill Lynch lead surge in underwriting

By Maggie Urry in New York

Wall Street securities houses are nearing the end of a year which has broken records in many business areas. Disclosed fees from underwriting securities are expected to exceed $6.3bn for the firms as a whole, up from $5.6bn in 1994, according to provisional estimates from Securities Data.

Leading the surge in fees has been Goldman Sachs and Merrill Lynch, each expected to earn more than $1bn from underwriting in the year, says Mr Richard Peterson of Securities Data, the firm which collects statistics on the financial markets.

Other firms, however, are forecast to suffer a fall in fees. Securities Data estimates Salomon Brothers' underwriting fee income will drop from $331m to $236m, partly because the mortgage-backed securities sector, where Salomon is a leading underwriter, has been under a cloud in 1995.

Total public issuance of securities of all types has so far reached $650bn and could still exceed 1994's level of $705bn. One banker said he expected a flurry of deals before the year-end as rival firms vied for top positions in the league tables.

Flotations so far this year have raised $29bn, still short of the $34bn record set in 1993, although well ahead of 1994's $22bn. However, with $12bn of deals coming in the last quarter of the year, 1996 is expected to get off to a good start, Mr Peterson said.

Mergers and acquisitions have had a "tremendous boom" in 1995, Mr Peterson said, with the total value of deals expected to reach a record $450bn, more than $100m up on the 1994 amount of $355bn.

There has been a rise in the number of hostile deals, which this year represent almost 20 per cent of all deals by value. That is still below the percentage in 1988 when a bid of more than $20bn for RJR Nabisco lifted the proportion of hostile bids to more than a quarter.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 15.12.95: Pool purchase price £/MWh	Final Prices for Trading on 17.11.95: Pool purchase price £/MWh	Final Prices for Trading on 17.11.95: Pool selling price £/MWh
0030	26.96	9.07	9.07
0100	26.96	39.83	41.85
0130	48.50	39.63	41.85
0200	49.50	39.63	41.85
0230	31.65	39.83	41.85
0300	31.65	8.96	11.18
0330	26.56	8.96	11.18
0400	26.98	9.02	9.02
0430	26.96	9.02	9.02
0500	41.89	8.98	8.98
0530	44.54	8.96	8.96
0600	29.29	8.97	8.97
0630	29.29	9.02	9.02
0700	29.51	12.94	15.16
0730	33.24	20.51	22.73
0800	35.82	32.04	34.27
0830	44.45	36.28	38.52
0900	47.38	36.31	38.55
0930	51.19	37.37	39.62
1000	51.42	37.37	39.62
1030	50.08	36.32	38.58
1100	46.52	36.32	38.57
1130	42.15	36.35	38.61
1200	41.47	44.85	47.11
1230	39.18	45.83	48.08
1300	35.59	44.79	47.04
1330	34.08	36.26	38.49
1400	31.56	33.85	36.08
1430	31.50	33.84	36.07
1500	31.45	33.84	36.06
1530	32.57	33.85	36.08
1600	60.50	34.96	37.58
1630	158.81	54.91	61.48
1700	284.21	82.52	93.74
1730	322.15	99.20	111.60
1800	286.11	90.51	101.20
1830	144.11	63.44	70.00
1900	73.00	48.26	52.07
1930	48.24	42.34	45.04
2000	38.84	37.54	39.85
2030	30.81	37.09	39.32
2100	30.23	34.68	36.90
2130	30.22	20.60	22.72
2200	30.21	20.23	22.45
2230	26.29	20.23	22.45
2300	12.07	12.94	15.16
2330	12.07	8.97	9.97
2400	12.07	9.02	9.02

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 4783 between 8:30am and 5:15pm Monday to Friday.
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Asda tactics upset Tesco as volumes rise

By Neil Buckley

Fresh from provoking Tesco's outrage by accepting Tesco Clubcard money-off vouchers in seven of its stores, Asda, the rival supermarket chain, will this weekend accept any money-off vouchers issued by rival grocers in all stores.

News of the promotion, to run this Saturday and Sunday, came as Asda beat expectations with a 27 per cent increase in interim pre-tax profits to £138.3m, and reported the fastest volume sales growth of any large grocer.

Mr Archie Norman, chief executive, said this weekend's offer would even cover vouchers for free frozen turkeys issued by Tesco to 1m higher-spending Clubcard holders.

"I don't think it will cost us a great deal - we will make money out of it. At this time of year, shopping baskets tend to be very big."

Tesco dismissed Asda's move as "another empty gesture" - although it launched a similar promotion three years ago.

Asda's promotion is the latest in a series of sometimes cheeky marketing moves, including outspoken campaigns against price-fixing on books and medicines, which have helped Asda outperform even Tesco on volume growth this year.

In four years, Asda has recovered from near-collapse, with £1bn debts, through returning to its roots as a low-priced retailer, and attempting to inject "fun and personality" into stores.

Total sales for the 28 weeks to November 11 increased 14 per cent to £3.03bn, which was less than Tesco's 25 per cent first-half rise. But Asda's like-for-like sales increased 12.6 per cent, against Tesco's 10 per cent.

Mr Norman said increased sales, particularly from older stores, would drive profits growth in the grocery trade in coming years.

However, Asda managed to increase its operating margin from 4.2 per cent to 4.6 per cent, reflecting an increase in operating profit from £113.9m to £140.5m, thanks to tight cost control and its higher sales.

Archie Norman: putting fun and personality into stores

Granada continues Forte attack

By Scheherazade Daneshkhu and David Blackwell

Granada, the TV and leisure group, yesterday continued its attack on management performance at Forte, the hotels group for which it is making a £3.2bn hostile bid. The first closing date is today.

Granada posted its latest document to Forte shareholders as Forte was working on the sale of its 72 White Hart hotels, for about £100m. Forte is expected to announce the deal next week.

Granada has said it would lift Forte's ongoing profits by £100m in the year to October 1 1997, via cost-cutting, exploitation of purchasing power and higher profit margins at Travelodge and the Little Chef and Happy Eater restaurants.

Granada also aims to raise £500m through the previously announced sale of Forte's 68 per cent stake in the Savoy hotel group, the 25 per cent stake in Alpha Airports, and Forte's motorway service stations.

Forte has asked the Takeover Panel to seek clarification from Granada about the £100m assertion. Sir Rocco Forte, chairman, said yesterday: "The £100m of cost savings has no detail to support it. He [Mr Gerry Robinson, chief executive of Granada] retracted the number on Monday. It is an empty and unsubstantiated claim."

Mr Robinson countered: "In relation to the size of the deal, if we were not talking of improvements of that order, we wouldn't have been interested in this bid."

Electricity companies increase pay-outs

Southern records 20% increase

By David Wighton and David Lascelles

Southern Electric yesterday added to the torrent of cash flooding out of regional electricity companies by announcing a £600m ($948m) package for shareholders.

This includes Southern's 11 per cent stake in the National Grid, a 50p special dividend and a 28.5 per cent increase in the interim dividend to 10.5p.

On the same day, London Electricity announced a 21 per cent increase in its interim dividend, in addition to its proposed 100p special dividend, and Scottish Hydro-Electric honoured its promise to shareholders of a real increase of 6 per cent in its dividend with a 9.4 per cent rise in the interim pay-out to 4.75p.

Southern, which is awaiting a ruling by the Monopolies and Mergers Commission on an agreed £2.9bn bid from National Power, did not distribute its Grid shares in time for the start of trading on Monday.

Its shareholders will now receive the Grid shares in early January, on the basis of 66 for every 100 Southern held.

Some analysts had assumed that Southern would follow the lead of Midlands Electricity, which was also the subject of a bid referred to the MMC, by paying a 100p special dividend.

Southern forecast total dividends of 35p this year, a rise of 23 per cent, and real annual increases of between 5 per cent and 6 per cent until the end of the decade. That compares with Midlands' projection of 6 per cent real growth.

The pay-outs accompanied a 20 per cent increase in pre-tax profits from £107m to £127.8m in the six months to September 30. The improvement reflected a £12.8m reduction in controllable costs and a £10m jump in profits from generation.

Scottish Hydro, the Perth-based electricity generator and distributor, said underlying profits growth was 10 per cent in the six months to September 30.

The reported pre-tax profits increase of 77 per cent to £61.7m was distorted by the £18.8m deducted from last year's £34.9m for the premium paid to redeem government debt ahead of time.

Allowing for last year's exceptional charges of £42.5m, earnings per share rose to 32.8p (22.9p) from which London is paying a dividend of 11.5p (9.5p).

● The Inland Revenue has agreed that National Grid shares will be valued at 207p for tax purposes, resulting in a credit of 51½p for non-taxpayers.

RESULTS

		Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends: Corresponding dividend	Total for year	Total last year
Acatos & Hutcheson	Yr to Oct 1	294.5 (249.4)	7.57 (14.2♥)	12.2 (20.3)	5.5	Apr 9	5.5	9	9
Albrighton	6 mths to Sept 30	4.12 (4.21)	0.857♥ (0.105)	1.3 (0.1)	nil	-	0.1	-	0.1
Asda	28 weeks to Nov 11	3,044 (2,659)	138.3 (108.7)	3.38 (2.62)	0.72	Apr 2	0.61	-	2.2
Bristol Water	6 mths to Sept 30	33.2 (31.3)	6.49 (4.734)	65.2 (45.3)	13.75	Feb 9	12	-	38.5
Care UK	Yr to Sept 30	15.74 (13.41)	2.65 (6.52♥)	4.83 (3)	0.5	Feb 7	nil	1.25	nil
CRT	6 mths to Oct 31	48.1 (29.2)	1.75 (1.294)	1.71 (1.42)	0.925	June 19	0.85	-	3.75
Daily Mail	Yr to Oct 1	874 (778.8)	88.8♥ (82.1)	45.2 (58.9)	13.5	Feb 16	12.5	17.8	16.5
Essor	6 mths to Sep 30	0.01 (7.38)	0.35 (0.18)	1 (0.6)	0.2	Jan 26	nil	-	0.2
Floral Street ♦	Yr to Sept 30 ♦	13.4 (6)	0.537 (0.451)	19.7 (14.5)	1	Mar 1	-	1	-
Golden Rose	Yr to Sept 30	2.86 (2.27)	3.18L (0.67L)	27L (14L)	-		-	-	-
Inner Workings	6 mths to Sept 30	0.187 (0.024)	0.118L (0.086L)	0.007L (-)	-		-	-	-
Intercare	Yr to Oct 31	45.2 (44.3)	2.48 (2.53)	5.3 (6.5)	2.8	Apr 6	2.8	3.5	3.5
John Lusty	6 mths to Sept 30	7.53 (7.17)	0.182 (0.215)	0.15 (0.19)	-		-	-	-
London Electricity	6 mths to Sept 30	556 (536.7)	84.5 (42.8♠)	32.8♠ (22.9)	11.5	Jan 26	9.5	-	29
London Merchant	6 mths to Sept 30	18.8□ (18□)	25.9 (13.1)	7.59 (4.28)	0.8	Jan 5	0.8	-	4.4
M&G	Yr to Sept 30	326 (473.8)	52♠ (61)	50 (57.5)	18		17	32	30
MS Intl	6 mths to Oct 28	15.9 (14)	0.12 (0.9L)	0.3 (2.8L)	0.1	Feb 12	-	-	0.5
Northumbrian Res ♦	6 mths to Sept 30	0.073 (0.036)	0.0054 (0.008L)	- (-)	-		-	-	1
PhoneLink	6 mths to Sept 30	2.1 (0.787)	2.71L (1.58L)	7.3L (5.3L)	-		-	-	-
Platignum	6 mths to Sept 30	6.13 (6.45)	0.036 (1.39L♠)	0.14 (5.24L)	nil		nil	-	nil
Polar	Yr to Sept 29	35.5 (27.6)	2.43 (1.87)	20.6 (15.5)	4	Jan 12	3.1	6.6	5.4
Scottish Hydro	6 mths to Sept 30	388.2 (367.4)	61.7 (34.9♠)	11.85♠ (6.57)	4.75	Mar 20	4.34	-	14.01
Securicor	Yr to Sept 30	1,031 (900.3)	59.4 (60.6)	44 (37.5)	3.116	Apr 4	2.6	4.018	3.405
Security Services	Yr to Sept 30	962.1 (772.5)	72.2 (58.4)	42.3 (35.2)	5.828	Apr 4	4.851	7.714	6.537
SEP Industrial	Yr to Sept 30	54.7 (43.3)	5.75 (3.77)	4.39 (4.03)	1	Apr 6	0.6	1.6	1.05
Southern Electric	6 mths to Sept 30	732.7 (744.8)	127.8 (106.5)	35.9 (29.7)	10.5	Jan 29	8.3	-	28.5
Southern Water	6 mths to Sept 30	208.9 (180.8)	83.7 (70.8)	44.5 (39.8)	9.8	Apr 9	8.45	-	25.9
Sperati (CA)	Yr to Oct 31	1.24 (0.883)	0.11 (0.062)	80.4L (37.18)	25	Apr 10	nil	25	-
VideoLogic	6 mths to Sept 30	6.55 (5.51)	3.56L (3.75L)	2.6L (3.4L)	-		-	-	-
Investment Trusts		**NAV (p)**	**Attributable Earnings (£m)**	**EPS (p)**	**Current payment (p)**	**Date of payment**	**Corresponding dividend**	**Total for year**	**Total last year**
Welsh Industrial	6 mths to Oct 5	250.9 (203.5)	0.027 (0.026)	2.0 (2.08)	-		-	-	8.5

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ♦Comparatives for 17 months. ‡On reduced capital. □Rental income. ♣Aim stock. ☆Includes special of 4p.

S Water buys 10% of shares

By Peggy Hollinger

Southern Water yesterday paid £113m to buy back 9.9 per cent of its shares and promised investors that future dividends would benefit from the share buy-back programme.

The market welcomed the promise of better than expected dividend growth with a 9p rise in Southern's shares to 667p. Most of the 9.9 per cent stake was repurchased at 665p.

Mr William Courtney, chairman, said that in spite of the reduced number of shares after the buy-back, Southern intended to maintain the total cash payment to shareholders.

Based on Southern's comments, analysts are now expecting a 22 per cent rise in the pay-out for the full year.

Southern accompanied the buy-back with an 18 per cent increase in interim profits and a 16 per cent rise in the first-half dividend.

In the core business, Southern reduced costs by 2 per cent, helping trading profits to rise to £79.5m (£69.9m) on sales 7 per cent ahead at £180.7m.

The group also reaffirmed its commitment to spending £50m on improving water quality and distribution, and to defer 1 per cent of customer price increases next year.

Pension funds to publish guidelines

By William Lewis

Several large pension funds, with combined assets of more than £30bn, are planning to publish their corporate governance guidelines, on which voting decisions at annual meetings are based.

The British Telecommunications and Post Office pension funds will publish, in their next annual reports, the guidelines which their investment managers follow when making voting decisions.

On Wednesday RailPen, which has assets of about £10bn, agreed to publish its corporate governance code covering issues such as the length of directors' contracts and dividend payments. Investment managers will be expected to vote shares that RailPen owns in line with the code. RailPen trustees also want them to take a more active interest in corporate strategy and performance.

Trustees of the BBC pension fund, which has assets of £4bn, are also considering reform of the fund's corporate governance decision-making process. It follows protests from scheme members at the fund's decisions to vote with management at British Gas's annual meeting in May, against a proposal to reform the company's controversial remuneration structure.

BBC trustees have agreed to take the National Association of Pension Funds' voting advice service as an interim measure ahead of a final decision on reforms next year. Current practice at the BBC is for the fund's voting decisions to be taken by the Pensions Accountant, a scheme official, with investment managers. However, some trustees want to control the way the funds' shares are voted.

The BT pension fund invests most of its £18bn of funds through Hermes, which it owns and whose chief executive is Mr Alastair Ross Goobey. He said yesterday: "We have undertaken to publish our corporate governance guidelines next year."

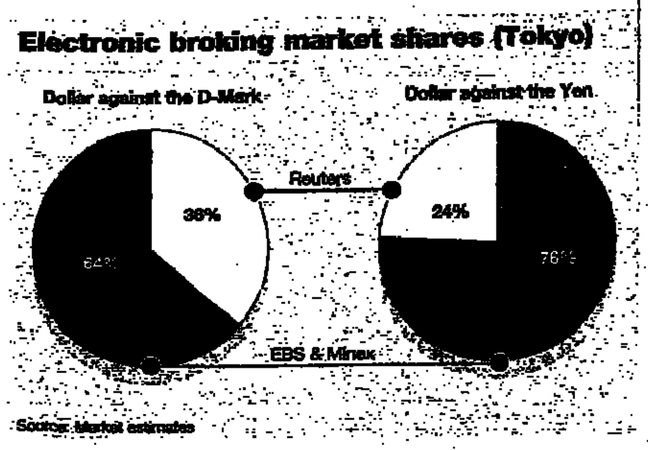
The two Post Office pension funds, with combined assets of about £11bn, are also planning to disclose their corporate governance policies in their next annual report. Hermes is the lead investment manager to the Post Office funds and it has agreed to consult more with trustees ahead of controversial voting decisions.

"Some trustees were not happy with the way the British Gas vote was handled," a Post Office trustee said yesterday. "So we now have an undertaking that we get consulted on big decisions." Hermes voted clients funds for management at BG's annual meeting.

COMPANY NEWS: UK

Brokers lose voices to the small screen

Electronic broking is a bitter-sweet experience for foreign exchange markets. Philip Gawith reports



The tie-up between EBS and Minex may have come as little surprise to the foreign exchange industry; but the onward march of electronic broking has astounded even its most ardent enthusiasts.

For the 13 sponsors of EBS, which includes most of the leading global foreign exchange banks, this has been a bitter-sweet experience. On the one hand, their investment has proved profitable, as well as curbing the excessively dominant position Reuters was threatening to take in the foreign exchange business. On the other, electronic broking is changing the face of foreign exchange in a way many of its sponsors do not like.

"It's kinda funny to be the sponsor of something that is killing you," says one, while another comments: "The risk was that success was going to backfire on us, and it has. From an idealistic point of view, we wish electronic broking had never been invented."

EBS's origins were essentially defensive. It was set up to combat the monopolistic threat posed by Reuters which supplied most of the information foreign exchange dealers use, and supplied the hardware for more than 30 per cent of interbank foreign exchange deals. The final straw was the development of Reuters 2000-2, which would also have given them control of execution and pricing of deals.

The big foreign exchange banks were left with no choice.

Not all of EBS's sponsors are reluctant converts to electronic broking. Mr Julian Simmonds, head of global foreign exchange at Citibank, the largest in the business, says: "I haven't the slightest regret that we are in. It is win, win, win on EBS."

For the less enthusiastic, electronic broking is seen as having destroyed some of the pool of profits to be shared by foreign exchange banks. "It has disintermediated the big liquidity banks and allowed small banks to find each other," says one.

Previously, small banks wishing to buy or sell currencies would approach the large banks, who would provide liquidity while making a small turn. Now they can get access to the most competitive prices simply by having an EBS or Reuters terminal. The big banks have accordingly seen this "metro" (under $5m ticket price) business shrink.

Mr Simmonds's sanguine response is probably a reflection of the fact that Citibank has a uniquely large customer base, and hence may be less vulnerable to the loss of small bank business.

While the "democratisation" of the keenest price has made the market fairer, the trend of smaller banks to deal less with large banks and voice brokers, and more on electronic systems, has meant foreign exchange flows have become more decentralised.

Mr Paul Chappell, director of global foreign exchange at Bank of America in London, comments: "With electronic broking making things more opaque, knowledge of liquidity becomes more important. Being able to recognise when liquidity is likely to be less available is as important as guessing the direction."

If electronic broking has been a mixed blessing for its sponsoring banks it has been an misery for voice brokers, who have lost considerable market share. Electronic broking has also put their margins under pressure. Bank sources argue that voice brokers may now make a loss on spot foreign exchange business, which they subsidise through their activity in the forward market.

Industry estimates are that for deals of up to $5m, the cost to banks of using voice brokers has probably halved.

Mr Derek Tullet, president of Tullett and Tokyo, one of the brokers, says: "Electronic broking has obviously had an effect on us, but it hasn't been a disaster." He concedes that money brokers have probably seen no growth for about 18 months in spot foreign exchange, although this is also a function of quieter markets and fewer customers following banking mergers.

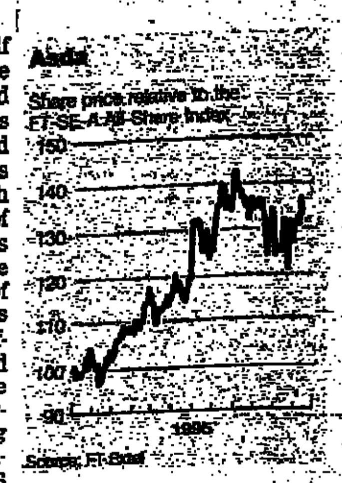
The broking community has suffered job losses this year, with some of the smaller firms reducing the spread of businesses they are involved in. There is also agreement that markets are overbroked, with further rationalisation inevitable.

The pressure is unlikely to let up soon. EBS is expected next year to start trading forward foreign exchange contracts and floating rate agreements.

Nobody, however, believes that electronic broking can replace voice brokers completely. Mr Tullet comments: "A screen can tell you the price, but it doesn't tell you the market."

LEX COMMENTS

Asda ahead of the pack



Asda's impressive first-half results should silence those doubters who questioned where the superstore chain's next leg of growth would come from, now that its recovery phase is over. With like-for-like sales growth of nearly 13 per cent, Asda was once again ahead of the pack. It has a good chance of staying there. Driving profits has become increasingly difficult in the competitive food retailing sector, since store openings have been curtailed by stringent planning controls. But Asda's expanding operating margin of 4.6 per cent is still a couple of percentage points below its main rivals. It has already proved its ability to control costs, and there are further benefits to come from its £70m investment in systems, which will improve stock management – an area where Asda admits it has fallen behind.

The sting in the tail for Asda's competitors is that food retailing is more or less a zero sum game.

Canny marketing by Tesco and Argyll has allowed them to hold on to profit margins. But Asda is winning market share from somewhere, and the likely loser is J Sainsbury. Either Sainsbury is not investing enough in reducing prices, or its marketing is not working.

Whichever it is, Asda, one of the best performing stocks in the FT-SE 100 index this year, is likely to continue to outperform, while Sainsbury's position as a market leader is coming under increasing threat. In the fast-moving retailing sector, it does not pay to take one's eye off the ball for an instant.

UK telecoms

The telecoms regulator has won a symbolic victory over BT. Yesterday's Monopolies and Mergers Commission decision that the company must pay 70 per cent of the costs of "number portability" is not in itself financially significant.

But worries about the deteriorating relationship between BT and its regulator have already taken a heavy toll on the share price. His triumphalist statement does nothing to allay investors' fears. On the contrary, with a victory under his belt, the regulator may have developed a taste for blood.

Just as important, perhaps, is what "portability" will mean for BT's market share: customers are more likely to switch suppliers if they can keep their telephone number. Yesterday's rise in cable operators' share prices is justified.

BT's competitors, including Mercury, will win more customers than they lose. Their pricing freedom gives them an added advantage. BT, by contrast, is hamstrung by a requirement to charge uniform rates across the country.

Given the regulator's attitude, shareholders are already reconciled to the prospect of BT's losing further market share. Some even hope that competition will erode the customer base fast enough to stop the regulator getting tough.

The reality, though, is that the company faces threats on both fronts. By next summer, when the key argument over BT's new price formula takes place, number portability will have had little time to show its full potential.

CONTRACTS & TENDERS

هكذا من الأصل

COMMODITIES AND AGRICULTURE

Cocoa producers prepare to fight EU directive

The International Cocoa Organisation (ICCO) is to meet next week with the spotlight thrown on its production management plan, future financing and the European Union chocolate directive, reports Reuters.

The European Commission plans to discuss a draft proposal on Wednesday – the last day of a three-day ICCO meeting – that suggests maintaining current manufacturing practices in Europe.

That would allow only Britain, Ireland, Denmark, Portugal, Austria, Sweden and Finland to use up to 5 per cent non-cocoa fats in chocolate while other members would have to use cocoa fats only.

Cocoa producers had maintained that chocolate should be made with 100 per cent cocoa, so they were likely to voice opposition to the proposal, ICCO delegates said yesterday.

The ICCO plans meetings of its executive, production and consumption committees. The next full meeting of the council, the ICCO's highest decision-making body, will take place in March 1996.

Some delegations, including producers, said they planned next week to maintain pressure on producers to take serious action under the production management plan.

The plan was aimed at cutting production by 375,000 tonnes by the end of the decade but critics have argued that it has set unrealistic production targets in its first two years, which meant little if any output cuts were needed.

"Our strategy would be to keep this in the spotlight until the March meeting," said a producer delegate.

"This mechanism has never been put to the test. To be fair it is not being put to the test because it has not left the paper yet. Countries are not applying it."

Some delegates said they planned to push for the ICCO to start considering the future shape of its budget in the absence of revenues from the buffer stocks.

Brazilians back US coffee estimate

The first estimate of Brazil's 1996-97 coffee crop by the US Department of Agriculture was been generally well-received by the country's producers and traders, reports Reuters from Rio de Janeiro.

The USDA's forecast, released on Wednesday night, put the coming Brazilian crop at 25.5m bags (60kg each). Many traders and producers had been estimating the harvest at 24m to 26m bags.

"I think that it's a good estimate, more or less in line with our own thinking," said Mr Gilson Ximenes, president of the National Coffee Council, which represents producers.

"There are some people talking about 20m to 22m bags but I think the USDA's figure is very good," one dealer said.

Many traders had been looking for a reduction in the forecast for the 1995-96 harvest but this the USDA left unchanged at 16.8m bags.

The USDA said the actual 1996-97 crop size would depend on weather, inputs and agricultural practices.

Egyptian cotton policy in a tangle

Attempts to liberalise marketing have resulted in turmoil, writes James Whittington

Egyptian cotton has been conspicuous by its absence from world markets this year because of local politics and difficulties in liberalising the marketing of the crop.

Although Egyptian exports are minuscule in proportion to the global market, the country remains an important source of the long staple varieties that are used in high quality garments. Last season Egypt captured 27 per cent of the world market for long staple cotton with exports of 67,000 tonnes.

Partly as a result of the delay in any announcement on exports by the Egyptian government, long staple prices have been steadily rising over the past few months. According to the Liverpool-based Cotton Outlook magazine, prices for American Pima arriving at north European ports have risen by 16 per cent from 156 cents a pound at the beginning of October to 184 cents per pound this month.

Egypt's cotton sector has been in turmoil since the end of 1994 when three laws were passed aimed at liberalising the pricing and marketing of the crop. After more than three decades of strict state controls during which government mismanagement and price distortions led to gradual decline in its cultivation and output, the adjustment process to a free market has proved more difficult than imagined.

It has not been helped by another disappointing harvest caused by bad weather and infections in the crop. For the 1995-96 season lint output is forecast at 257,000 tonnes compared with 254,000 tonnes last season and the bumper crop of 416,000 tonnes in 1993-94.

The main difficulty posed by the liberalisation package has been the domestic supply of cotton to Egypt's state-dominated textiles sector. Last year the government set a minimum equivalent price of about 80 cents per pound for the standard cotton variety of Giza 75 at which farmers could choose to sell to the state collection points or to private traders. Most people were taken completely by surprise, however, when the new trade environment led to an inevitable rapid escalation of prices.

The poor crop and rising prices presented the textile manufacturers for the first time in decades with the market phenomenon of short supply and high prices. Many complained that they were making huge and unsustainable losses and they urged the government to intervene and bring back some order.

One enterprising private trader, Mr Mahmoud Wahba, who captured 18 per cent of the crop and waited for the price to rise even further before selling, came in for particular criticism from the state spinners and weavers and the local media who were all aghast at his profiteering scheme.

This season, the government set a "recommended" equivalent selling price of 134 cents a pound for Giza 75 but said that any trader who stocked cotton for more than one month would be penalised. Having seen the profits made by some in the previous season, however, over a hundred private traders had registered to buy cotton and prices once again rocketed. At one point the price passed the equivalent international price for long staple cotton and the spinners and weavers were outraged.

As the state textiles mills represent an important part of the public sector, employing nearly 600,000 public workers, their complaints were difficult to ignore. At the beginning of October the government stepped back into the market. First it froze all exports of cotton until domestic consumption had been met – on average domestic consumption is just below this season's forecast harvest at 270,000 tons. Second, it changed the recommended price into a maximum price to stop further speculation. Since then there have been a number of raids on cotton stocks held by private sector traders, who were described in the local press as "the cotton Mafia".

"It's a Catch 22 situation," explains Mr Hassan Khedr, chairman of the state-owned Principal Bank for Development and Agriculture Credit. "The government is committed to the cotton reforms but it cannot afford to let its inefficient textiles mills die without giving them time to adjust."

The cotton farmers, predictably, were furious. "How can the government expect farmers to plant cotton when they are paid peanuts for doing so," exclaims Mr Mohamed Idriss, president of the Central Agricultural Co-operative Union, which is urging farmers to refuse to sell their cotton to the state. A key problem facing the government is the need to encourage more land to be put into cotton cultivation. This season it was down to 288,000 hectares, compared with 890,000 at its peak in the 1960s.

Ironically, the one player who is most sanguine about the government's backtracking is Mr Wahba, the private sector cotton mogul who led the way in cotton speculation. Since his arrival on the scene last year he has begun integrating his activities in the cotton sector. He is the first private businessman either to buy or to lease ginning and spinning mills from the state and he also producing cotton seed oil.

"I look at the government's move as a necessary step back in liberalisation for the next two steps forward," he says. "Reform is needed across the board in the cotton and textiles business and you can't move ahead with one without the other. Everyone is learning again how a free market works and after decades of state control you can't expect this to happen over night."

While domestic turmoil is expected to continue, Egypt's main international clients for cotton in Italy, Japan and Switzerland have been quietly assured that there will be deliveries next year. Imports of yarn for the textiles sector is expected to free some cotton for export but it is not expected to be the same quantity as last season.

Egyptian Cotton

	Area (hectares)	Output (tonnes)
1996-97(f)	348,000	301,000
1995-96(f)	298,000	257,000
1994-95(e)	302,000	254,000
1993-94	371,000	416,000
1992-93	353,000	357,000
1991-92	358,000	291,000
1990-91	417,000	296,000
1985-86	454,000	435,000
1980-81	523,000	529,000

f = Forecast, e = estimate. Source: International Cotton Advisory Committee.

Korea 'could open northern Asia to Russian natural gas'

By Robert Corzine

South Korea could play a critical role in opening northern Asian energy markets to Russian natural gas exports, according to a new study.

A report by ING Barings Bank suggests that Korea, rather than Japan, could play the pivotal role in unlocking Russian gas reserves in eastern Siberia. It says Korea, which is currently seen as one of the main targets for liquefied natural gas exports from south-east Asian and Middle Eastern gas producers, is keen to diversify its sources of gas supply.

Any deal involving Korean purchases of Russian gas would have a strong regional political dimension, says Mr Alex Stewart, the report's author. Seoul has been keen to improve relations with both Russia and China, and a natural gas pipeline to Korea via the latter would be a potent political symbol of regional co-operation.

The study says Japan's hopes to tap gas from fields of the Russian island of Sakhalin remain frustrated because of continuing uncertainty over the fate of production-sharing legislation in Moscow. It says the "lingering territorial dispute with Russia over the Kurile islands" is an added impediment.

Mr Stewart said Korean companies had undertaken detailed studies to determine the viability of projects based on gas from eastern Russia. But any announcement of further progress might be affected by the political scandals thathave recently embroiled the Seoul government.

Energy Security in North Asia, The Opportunity for Russian Gas: ING Barings, 60 London Wall, London EC2M 5TQ, £395

MARKET REPORT

LME copper contract extends gains

London Metal Exchange **COPPER** extended earlier gains by yesterday's close as speculative buying and short-covering lifted prices in fairly brisk conditions.

Traders said three months delivery copper had risen from a Wednesday low below $2,680 to a high point yesterday of $2,740 and was likely to move on towards $2,750 as further bouts of short-covering and investment fund buying were expected to emerge.

The cash premium over three months metal eased to around $265 from $285 on Wednesday, though there were further signs of tightness rolling from December into the January/February period.

Three months **LEAD** eased after it failed to overcome profit-taking and resistance around $730 a tonne. Traders said the contract could face further losses if it failed to hold above $720.

ALUMINIUM broke out of the $1,650/1,700 range to touch $1,712 before ending the session $26.50 higher at $1,710.50. Sentiment was helped by contraction in the January/February discount, which traders said could reflect expectations of lower US interest rates.

Compiled from Reuters

Banana strike hits St Lucia

By Canute James in Kingston

Members of one of St Lucia's banana farmers' unions have begun a one-week strike that officials say will hit exports from the island to Britain. St Lucia is the biggest producer of the four Windward Islands of the eastern Caribbean.

The strike was called by the Banana Salvation Committee, which is pressing the government for an increased role in the restructuring of the industry. It says it wants information from the government on the current debt of the industry, and on the distribution of income from exports.

"With this restructuring, farmers have no input, and it is Government restructuring the industry to suit itself," said Mr Patrick Joseph, secretary of the committee. "So we need to have an input and know that state of the industry," he said.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne) · ■ ALUMINIUM ALLOY ($ per tonne) · ■ LEAD ($ per tonne) · ■ NICKEL ($ per tonne) · ■ TIN ($ per tonne) · ■ ZINC, special high grade ($ per tonne) · ■ COPPER, grade A ($ per tonne) · ■ LME AM Official £/$ rate: 1.5345 · ■ HIGH GRADE COPPER (COMEX)

[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.) · ■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.) · ■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.) · ■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel) · ■ CRUDE OIL IPE ($/barrel) · ■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.) · ■ GAS OIL IPE ($/tonne) · ■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.) · ■ UNLEADED GASOLINE NYMEX (42,000 US gals.; c/US gals.)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne) · ■ WHEAT CBT (5,000bu min; cents/60lb bushel) · ■ MAIZE CBT (5,000 bu min; cents/56lb bushel) · ■ BARLEY LCE (£ per tonne) · ■ SOYABEANS CBT (5,000bu min; cents/60lb bushel) · ■ SOYABEAN OIL CBT (60,000lbs; cents/lb) · ■ SOYABEAN MEAL CBT (100 tons; $/ton) · ■ POTATOES LCE (£/tonne) · ■ FREIGHT (BIFFEX) LCE ($10/index point)

[illegible]

FUTURES DATA

All futures data supplied by CMS.

Wool

[illegible]

SOFTS

■ COCOA LCE (£/tonne) · ■ COCOA CSCE (10 tonnes; $/tonnes) · ■ COCOA (ICCO) (SDR's/tonne) · ■ COFFEE LCE ($/tonne) · ■ COFFEE 'C' CSCE (37,500lbs; cents/lbs) · ■ COFFEE (ICO) (US cents/pound) · ■ No7 PREMIUM RAW SUGAR LCE (cents/lbs) · ■ WHITE SUGAR LCE ($/tonne) · ■ SUGAR '11' CSCE (112,000lbs; cents/lbs) · ■ COTTON NYCE (50,000lbs; cents/lbs) · ■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100) · ■ CRB Futures (Base: 1967=100) · ■ GSCI Spot (Base: 1970=100)

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs) · ■ LIVE HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	59.975	-0.225	60.750	59.400	2,750	5,006
Mar	60.050	-0.250	60.700	59.575	344	977
May	61.050	-0.150	61.900	60.500	69	487
Jul	61.650	-0.250	62.250	61.500	79	553
Aug	59.400	+0.500	59.450	-	11	174
Total					3,247	7,197

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jan	Mar	Jan	Mar
1600	111	137	1	15
1700	32	70	22	46
1800	3	29	93	103
■ COPPER (Grade A) LME	Jan	Mar	Jan	Mar
2700	-	115	-	83
2800	150	67	4	113
2900	70	35	23	160
■ COFFEE LCE	Jan	Mar	Jan	Mar
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
■ COCOA LCE	Mar	May	Mar	May
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1650	-	-	-	-
1700	-	58	-	17
1750	-	31	-	37

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Feb)		+or-
Dubai	$16.28-6.39w	-0.205
Brent Blend (dated)	$17.86-7.88	-0.07
Brent Blend (Feb)	$17.36-7.38	-0.08
W.T.I. (1pm est)	$18.44-8.48w	-0.13
■ OIL PRODUCTS NWEprompt delivery CIF (tonne)		
Premium Gasoline	$170-172	+2
Gas Oil	$177-178	+3
Heavy Fuel Oil	$102-104	-1
Naphtha	$158-160	
Jet fuel	$199-201	+3
Diesel	$179-181	+2

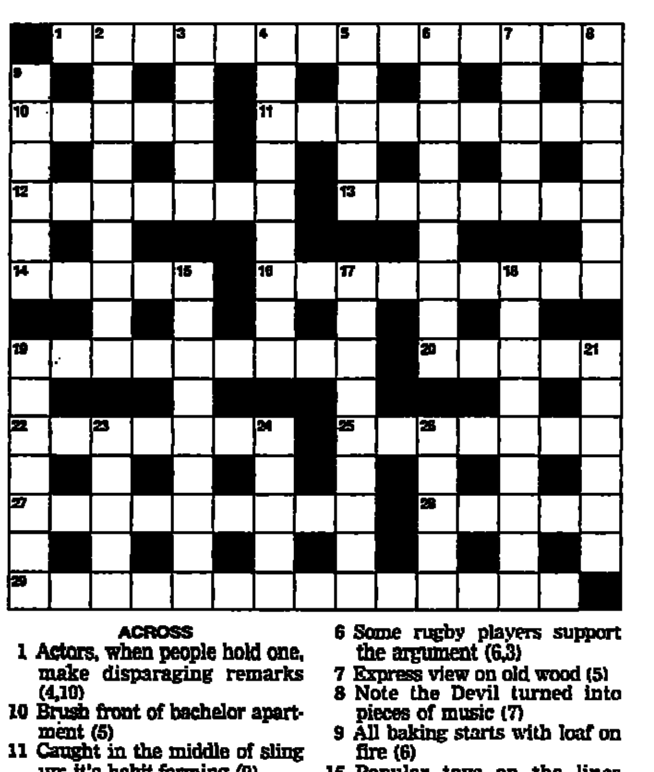
Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER		
Gold (per troy oz)‡	$386.15	-1.60
Silver (per troy oz)‡	515.5c	-1.0
Platinum (per troy oz.)	$409.85	+2.90
Palladium (per troy oz.)	$138.25	-0.15
Copper	125.0c	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.82m	
Tin (New York)	302.5c	+1.0
Cattle (live weight)†	119.26p	-2.31
Sheep (live weight)†♠	116.76p	-1.59
Pigs (live weight)†	112.71p	+5.34
Lon. day sugar (raw)	$309.10	-2.4
Lon. day sugar (wte)	$381.5	-1.5
Barley (Eng. feed)	£121.25	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Jan)♥	112.50p	-1.00
Rubber (Feb)♥	112.50p	-1.00
Rubber (KL RSS No1)	428.0m	
Coconut Oil (Phil)§	$712.5y	
Palm Oil (Malay.)§	$595.0z	
Copra (Phil)§	460.0y	
Soyabeans (US)	210.0u	
Cotton Outlook'A' index	88.20c	+0.05
Wooltops (64s Super)	432p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Dec. u Nov/Dec.♥ w Feb. y Dec/Jan. x Oct/Dec London Physical. § CIF Rotterdam. ‡ Bullion market close. ♠ Sheep (Live weight prices). * Change on week † Prices are for previous day.

CROSSWORD

No.8,945 Set by HIGHLANDER



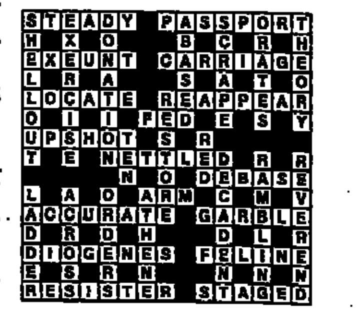
ACROSS

1 Actors, when people hold one, make disparaging remarks (4,10)
10 Brush front of bachelor apartment (5)
11 Caught in the middle of sling up: it's habit-forming (9)
12 Conduct legal proceedings (7)
13 Caustic piece of verbal wit by small chap (7)
14 Eject violently from English rugby training (5)
16 Sneaks into classes about mid-term (9)
19 Stole goods from deck as ran adrift (9)
20 Odd way to protect half-back (5)
22 Catholic church affair (7)
25 Everyone that's in Rolls Royce is a motor sport enthusiast (7)
27 Although exhausted by work, char takes newspaperman out (6,3)
28 Has gone into training for the stage (5)
29 Can stem treatment of teeth appear as out of this world? (14)

DOWN

2 Military reverse is a matter of surprise (5,4)
3 Opera came across by reversing the rhythm (5)
4 Comedy is a hit with staff (9)
5 Arrive eventually at university on target (3,2)
6 Some rugby players support the argument (6,3)
7 Express view on old wood (5)
8 Note the Devil turned into pieces of music (7)
9 All baking starts with loaf on fire (6)
15 Popular toys on the lines guide prescribes (5,4)
17 Constitutionally like the USA and supplied a long time by Teddy (9)
18 Food in Mexico and Chile is cooked on one (9)
19 Put teeth into first lightly cooked savoury (7)
21 Ball in royal house attended by queen (6)
23 Girl and Frenchman on song (5)
24 East European lifted bolt (5)
26 Sell up in toto, plant included (5)

Solution 8,944



INTERNATIONAL CAPITAL MARKETS

European prices strengthen on back of German rate cut

By Richard Lapper in London and Lisa Bransten in New York

Germany's decision to cut its discount and Lombard rates yesterday gave a fillip to international bond markets. The Bundesbank's 50 basis point rate cut was quickly followed by cuts in Switzerland, the Netherlands, Denmark, Belgium, Austria and Ireland and and encouraged hopes of monetary easing in France and Spain, as well as in the US.

Prices rose in most markets, although Italy was an exception, losing ground on currency weakness and amid continuing concerns about the government's budget proposals.

■ Traders greeted news of the German rate cut early yesterday afternoon by taking profits. But the market quickly regained momentum, with prices rising on largely futures-driven trading.

Mr Karl Haeling, head of futures and options at Deutsche Bank in Frankfurt, said: "It is not a flood, but a steady trickle of new money is coming into the market. The basic supply and demand fundamentals are very bullish."

International buyers, including US funds, were attracted to the market yesterday, reported traders.

At Liffe, the March 10-year bund future gained about a quarter of point, settling at 99.09. Shorter-dated paper performed particularly strongly with the March three-month euromark contract gaining 0.06 to settle at 96.45. In the cash

GOVERNMENT BONDS

market yields on two-year benchmark bonds fell by 10 basis points, compared with a fall of three basis points in the 10-year area.

The markets are divided about the prospects for further curve steepening, with views reflecting differing expectations for further cuts in interest rates next year.

Mr Stuart Thomson, chief international economist at Nikko Europe, says the weakness of the German economy makes a further 50 basis point cut in the discount rate likely in the first half of next year.

"Recent data releases have shown there is really very little momentum in the economy. Half a percentage point is not enough," said Mr Thomson.

He expects the spread between benchmark two-year and 10-year bonds to widen to 234 basis points by the end of the second quarter. By contrast, Mr Heinz Gunasekera, bond analyst with UBS in Frankfurt, does not expect further rate cuts in this cycle. He expects the yield spread between two-year and 10-year bonds to contract to 170 basis points by the end of the second quarter.

■ The German rate cut gave a shot in the arm to the French bond market which had gained ground earlier in the day on news that striking railway workers were beginning to return to work.

The Bundesbank move increases the room for manoeuvre available to the Bank of France, which is widely expected soon to reduce its intervention rate from its current level of 4.7 per cent.

Mr Eldred Buck, head of research at Fimat in Paris, said early news reports had exaggerated the degree to which the strike movement is weakening, and the German rate cut had "kept the heat underneath the market".

Shorter-dated paper outperformed. In the cash market yields on two-year benchmark bonds fell by 15 basis points, compared with a 9 basis point fall in the 10-year sector. The 10-year yield spread of French bonds over German paper narrowed by 7 basis points to 67.

At Matif the March three-month Pibor contract gained more than a quarter of a point, while the December 10-year bond future gained more than half a point.

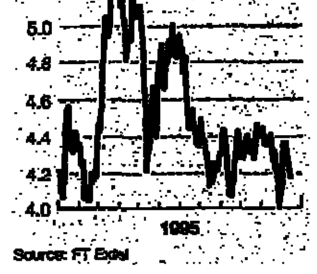
■ UK government bonds were helped by slightly better than expected retail price index figures. Retail prices were flat in November, making for a year-on-year increase of 3.1 per cent.

At Liffe the March long gilt contract gained a quarter point in morning trading, but drifted sideways in the afternoon closing off its day's high at 110¾, up ⅜. March short sterling gained 0.03 to settle at 93.84.

Separately the Bank of England yesterday announced it is consulting participants in the gilts market about setting up a separate list of index-linked market makers and holding a pilot series of auctions of index-linked gilts in the next financial year.

The bank said it had no plans to introduce so-called "limited price index" gilts or "earnings-linked" gilts. "While there have been indications of interest in these innovations by some market practitioners, the scale of demand is very uncertain and there would be a risk of fragmenting the liquidity of the index-linked market," it said.

Spanish 10-year bonds
Yield spread over Germany
Basis points



Source: FT Extel

■ The Italian market was hit by news that centre-right parties would oppose the government's plans, as well as the weakness of the dollar and the lira. The March 10-year futures contract settled at 105.43, down 0.74. In the cash market the 10-year yield spread over Germany widened by 16 basis points to 529.

■ Spanish bond prices moved up sharply and although they later dropped off highs on profit-taking, the March 10-year future settled at 94.36, up more than half a point. The 10-year yield spread over Germany narrowed by 5 basis points to 387.

Germany's rate cut increases the likelihood of a cut later this month by the Bank of Spain. Mr Ken Wattret, international economist with HSBC Markets, said Spain's improving fundamentals and growing hopes for a change of government next year were fuelling optimism.

■ Revived hopes that the Federal Reserve will cut interest rates next week helped US Treasury prices move higher in early trading yesterday. Near midday the long bond was ⅝ higher at 111½ to yield 6.062, while at the short end the two-year note gained 1/16 at 100 to yield 5.357.

A spate of figures released yesterday suggested that inflationary pressures were in check. The consumer price index was unchanged overall in November and up 0.1 per cent excluding the volatile food and energy components. Economists had expected consumer prices to be up 0.2 per cent both with and without the food and energy components.

Business inventories increased by 0.6 per cent in October, suggesting that manufacturing activity will slow in coming months.

Capacity utilisation edged down last month to 83.1 per cent from 83.3 per cent in October.

Industrial production in November, however, was modestly stronger than economists expected, rising 0.2 per cent compared with expectations that it would be unchanged after the 0.3 per cent fall recorded in October.

Still, the overall picture of a weakening economy with little danger of an increase in inflationary pressures led to increased speculation that the Fed would lower interest rates at next week's meeting of its Open Market Committee.

Hopes for lower short-term rates led to a steepening of the yield curve that maps the spread between yields on two-year and 30-year bonds. The curve steepened to 71 basis points from 68 basis points late on Wednesday.

FOA issues guide for managers of derivatives

By Conner Middelmann

The UK Futures and Options Association (FOA) has published a set of comprehensive guidelines* for board directors and senior managers of companies using derivatives.

"These are intended to be very down-to-earth, practical guidelines," said Mr Anthony Belchambers, executive director of the FOA. "Unlike, for instance, the G-30 report on derivatives which was directed at banks and the supply side of the industry, these guidelines are readily accessible to end users."

The guidelines stress the need for boards of directors to establish and approve an effective policy for the use of derivatives, and for senior management to ensure compliance with board policy and provide the effective supervision of derivative activities, such as credit and legal risk.

The FOA plans to publish a separate set of guidelines targeted specifically at pension fund trustees early next year, as well as a more concentrated version of the recommendations for small businesses which use derivatives.

● In Malaysia, the Kuala Lumpur Options and Financial Futures Exchange (Kloffe) today will start trading its first derivative instrument, a futures contract on the Kuala Lumpur Stock Exchange's Composite Index (KLCI), making it the third futures exchange in Asia.

However, Kloffe's launch will be a relatively subdued affair as much of the infrastructure needed for an active market is still not in place.

*"Managing Derivatives Risk: Guidelines for End-Users" is available from the FOA, Roman Wall House, 1-2 Crutched Friars, London EC3N 2AN, Tel 0171-488 4610

Two asset-backed FRN deals launched

By Conner Middelmann in London, Emiko Terazono in Tokyo and Peter Wise in Lisbon

The eurobond market finally ran out of steam yesterday, sputtering to a halt with only a handful of deals – two of them asset-backed – emerging.

A FFr720m issue of asset-backed floating-rate notes for special purpose vehicle Apigaz, backed by employee loans by government-owned utility Gaz de France, met with strong European demand, said Morgan Stanley, joint leads with CCF. The notes yield almost 29 basis points over three-month Libor at the re-offer price. "The kind of securitised backed deals are getting very popular – investors are keen on triple-A rated paper which offers a good yield," an official said.

INTERNATIONAL BONDS

Another asset-backed deal emerged for Capital One Master Trust, which issued $97.5m of class B subordinated floating-rate notes paying a coupon of 20 basis points over three-month Libor, via BZW. They rank behind a class A $600m offering executed recently in the US market. The notes, which are rated A2 by Moody's, are secured by credit card receiveables originated and serviced by Capital One Bank of the US.

Elsewhere, Merrill Lynch Japan, the Japanese subsidiary of the US investment bank, has won its first sole lead-management mandate for a Japanese domestic bond.

It will lead a Y10bn issue for Itochu, a leading trading house, scheduled next month. Merrill, which had previously concentrated on cross-border transactions, has boosted marketing efforts of yen products for Japanese investors over the past two years.

Itochu's decision follows that of Olympus Optical, which recently appointed Paribas Capital Markets to lead its Y30bn corporate bond issue.

Caminhos de Ferro Portugueses, Portugal's state railway, yesterday delivered the largest escudo deal of 1995 with an Es55bn ($361.1m) issue of a 10-year bond on the domestic market.

The issue, priced at six-month Lisbor less 0.125 per cent, was co-arranged by Banco Efisa, Banco Pinto & Sotto Mayor (BPSM) and Banco Totta & Açores (BTA).

The bond, to be listed on the Lisbon stock exchange, is callable on the fifth, sixth, seventh, eighth and ninth anniversaries with a premium.

A put option on the eighth anniversary can be exercised with a penalty.

It places BPSM and BTA at the top of the ranking for placing domestic escudo issues this year. The two banks are also leaders in the placement of escudo issues in the Eurobond market.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Stap Enterprise(a)φ	98	3.375	100.00	Jan.2000	2.25	-	Daiwa Europe
COMT, Class B(b)‡	97.5	(b1)	100.00	Jul.1998	0.07	-	Barclays de Zoete Wedd
GUILDERS							
Rabobank Nederland(c)§	200	4.25	102.00	Jan.2006	2.00	-	Rabo Securities
FRENCH FRANCS							
Apigaz, Senior Tranche(d)‡	720	(d1,s)	99.81R	Dec.2008	0.30R	-	CCF/ Morgan Stanley
LUXEMBOURG FRANCS							
SNS Groep	2bn	6.50	102.75	Feb.2003	1.875	-	ABN Amro Bank Luxembourg

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. φWith equity warrants. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Secured notes with covered warrants exercisable into shares of Shochiku Co. Final terms: 20/12/95. b) Capital One Master Trust. Secured by credit card receivables originated by Capital One Bank. Legal maturity: 15/12/00. Callable on coupon dates from Dec.96 at par. Subordinated to existing $600m Class A. c) Convertible on 23/1/98 into Dutch Top Five index at strike 980. d) Backed by employee loans originated by Gaz de France. Legal maturity: Dec.2017. Average life: 8.4 yrs. 10% cleanup call. d1) 3-mth Pibor +25bp. d2) Mezzanine tranche of FFr126m and subordinated tranche of FFr54½m were privately placed. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	111.7900	+0.510	8.26	8.27	8.69
Austria		6.500	11/05	100.3100	+0.310	6.45	6.52	6.89
Belgium		6.500	03/05	98.6500	+0.170	6.69	6.69	6.90
Canada *		8.750	12/05	110.0500	+0.520	7.31	7.22	7.53
Denmark		8.000	03/06	104.9400	+0.380	7.29	7.30	7.75
France	BTAN	7.750	04/00	106.2500	-0.130	5.91	5.99	6.47
	OAT	7.750	10/05	107.0600	+0.720	6.75	6.85	7.26
Germany Bund		6.500	10/05	103.2900	+0.320	6.04	6.11	6.39
Ireland		6.250	10/04	92.6500	+0.300	7.41	7.43	7.92
Italy		10.500	09/05	96.9800	-0.690	11.01†	10.92	11.49
Japan	No 129	6.400	03/00	120.3910	+0.084	1.33	1.35	1.56
	No 174	4.600	09/04	113.9290	+0.077	2.84	2.61	2.75
Netherlands		6.750	11/05	104.8500	+0.250	6.08	6.12	6.45
Portugal		11.875	02/05	110.6300	+0.680	10.03	10.21	11.14
Spain		10.150	01/06	100.2700	+0.620	9.92	10.13	10.79
Sweden		6.000	02/05	83.6410	+0.222	8.66	8.65	9.23
UK Gilts		8.000	12/00	105-05	+10/32	6.76	6.83	7.28
		8.500	12/05	107-24	+8/32	7.39	7.43	7.85
		9.000	10/08	111-23	+10/32	7.55	7.60	7.98
US Treasury *		5.875	11/05	101-01	-1/32	5.74	5.70	5.95
		6.875	08/25	111-07	-	6.06	6.04	6.28
ECU (French Govt)		7.500	04/05	103.1000	+0.530	7.03	7.12	7.68

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	5.47	Two year	5.37
Prime rate	8¾	Two month	5.44	Three year	5.42
Broker loan rate	7½	Three month	5.40	Five year	5.54
Fed.funds	[illegible]	Six month	[illegible]	10-year	5.72
Fed.funds at intervention	[illegible]	One year	[illegible]	30-year	6.06

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	120.20	120.56	+0.70	120.76	120.10	164,313	53,671
Mar	119.42	119.72	+0.58	119.90	119.34	84,846	83,811
Jun	119.74	120.08	+0.70	120.04	119.74	209	3,793

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
116	-	-	-	0.02	0.26
117	-	-	-	0.08	0.43
118	-	2.38	-	0.13	0.61
119	1.04	1.70	-	0.29	0.96
120	0.44	1.15	1.73	0.70	-

Est. vol. total, Calls 21,594 Puts 13,565. Previous day's open int., Calls 141,922 Puts 141,736

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.89	99.09	+0.29	99.16	98.86	117288	215403
Jun	98.29	98.39	+0.22	98.31	98.29	407	192

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	Feb	Mar	Jun	PUTS Jan	Feb	Mar	Jun
9900	0.32	0.70	0.95	1.08	0.23	0.61	0.86	1.69
9950	0.11	0.46	0.70	0.87	0.52	0.87	1.11	1.98
10000	0.03	0.29	0.52	0.70	0.94	1.20	1.43	2.31

Est. vol. total, Calls 11277 Puts 9234. Previous day's open int., Calls 169522 Puts 166444

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	106.47	105.43	-0.74	106.64	105.22	53493	47140
Jun	105.35	105.03	-0.74	105.35	104.90	101	1022

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
10500	1.97	2.64	1.54	2.61
10550	1.70	2.38	1.77	2.85
10600	1.46	2.15	2.03	3.12

Est. vol. total, Calls 2701 Puts 2084. Previous day's open int., Calls 38857 Puts 29167

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	94.00	94.35	+0.53	94.73	94.00	75,709	25,153
Mar	94.07	94.29	+0.54	94.62	94.00	16,023	25,655

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111-10	111-10	+0-08	111-11	111-08	1150	27866
Mar	110-22	110-26	+0-10	111-03	110-20	37479	122610

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jan	Feb	Mar	Jun	PUTS Jan	Feb	Mar	Jun
110	1-01	1-40	1-62	2-25	0-09	0-48	1-06	2-05
111	0-25	1-04	1-26	1-59	0-33	1-12	1-34	2-39
112	0-05	0-40	0-61	1-33	1-13	1-48	2-05	3-13

Est. vol. total, Calls 3094 Puts 2405. Previous day's open int., Calls 27219 Puts 25605

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	90.90	91.08	+0.46	91.16	90.86	4,551	5,916
Mar	89.76	89.90	+0.36	90.02	89.76	1,560	3,960

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	120-02	120-09	+0-03	120-17	120-01	17,512	82,754
Mar	119-29	120-02	+0-05	120-12	119-25	231,494	356,600
Jun	119-19	119-23	+0-05	119-26	119-17	1,713	15,392

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	121.69			121.96	121.83	1053	0
Jun				120.41	120.41	20	0

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thu Dec 14	Day's change %	Wed Dec 13	Accrued interest	xd adj. ytd		Low coupon yield Dec 14	Dec 13	Yr. ago	Medium coupon yield Dec 14	Dec 13	Yr. ago	High coupon yield Dec 14	Dec 13	Yr. ago
1 Up to 5 years (23)	123.24	+0.15	123.05	1.73	10.53	5 yrs	6.85	6.90	8.49	6.87	6.91	8.49	6.94	6.99	8.58
2 5-15 years (21)	150.52	+0.23	150.18	1.60	12.20	15 yrs	7.59	7.61	8.36	7.63	7.65	8.50	7.71	7.72	8.72
3 Over 15 years (8)	168.27	+0.18	167.97	2.11	13.13	20 yrs	7.67	7.68	8.32	7.71	7.72	8.50	7.77	7.76	8.63
4 Irredeemables (6)	193.14	-0.04	193.22	1.55	13.71	Irred.†	7.80	7.79	8.40						
5 All stocks (58)	145.37	+0.19	145.10	1.76	11.88										

Index-linked							Inflation 5% Dec 14	Dec 13	Yr. ago	Inflation 10% Dec 14	Dec 13	Yr. ago
6 Up to 5 years (1)	195.82	+0.18	195.47	1.19	8.37	Up to 5 yrs	2.69	2.76	3.95	1.59	1.65	2.63
7 Over 5 years (11)	189.41	+0.05	189.32	1.03	4.95	Over 5 yrs	3.51	3.51	3.86	3.33	3.33	3.85
8 All stocks (12)	189.42	+0.05	189.32	1.03	5.02							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Dec 14	Dec 13	Dec 12	Dec 11	Dec 8	Yr ago	High*	Low*
Govt. Secs. (UK)	96.05	95.97	95.89	95.86	96.15	91.94	98.22	90.22
Fixed Interest	114.91	114.82	114.77	115.01	115.04	109.60	115.04	108.77

GILT EDGED ACTIVITY INDICES

	Dec 13	Dec 12	Dec 11	Dec 8	Dec 7
Gilt Edged bargains	87.2	78.9	72.2	80.2	91.8
5-day average	82.1	87.0	93.1	95.9	100.7

* for 1995. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on December 14

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 5 97	1000	99¼	99½		5.69
Abbey Natl Treasury 6½ 03	1000	101⅝	101⅞		6.21
ABN Amro Bank 7¼ 05	1000	106⅛	106⅜		6.48
African Dev Bk 7⅜ 23	500	106⅜	106⅞		6.85
Alberta Province 7⅜ 98	1000	105	105¼		5.69
Asian Dev Bank 6¼ 05	750	101½	101¾	-⅛	6.14
[illegible]					
Sweden 8 97	2500	107	107⅛	+⅛	4.07
United Kingdom 7¼ 97	5500	105⅝	105¾	+⅛	3.94
Volkswagen Intl Fin 7 03	1000	104¼	104½	-⅛	6.26
World Bank 0 15	3000	28⅝	29	-⅛	6.45
World Bank 5⅞ 03	3000	100	100¼		5.87
SWISS FRANC STRAIGHTS					
[illegible]					
Abbey Natl Treasury 8 03 £	[illegible]				
Alliance Leics 11⅞ 97 £	[illegible]				
British Land 8⅞ 23 £	[illegible]				
Denmark 8¾ 98 £	[illegible]				
EIB 8 03 £	[illegible]				
Halifax 10⅜ 97 £	[illegible]				
Hanson 10⅜ 97 £	[illegible]				
[illegible]					

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

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MARKETS REPORT

European rates fall as Germany leads the way

By Philip Gawith

Interest rates fell across "core" European countries yesterday after the German Bundesbank led the way with a 50 basis point cut in the discount rate to three per cent. German rates have fallen from a peak of 8.75 per cent in September 1992.

The Swiss National Bank moved first, cutting its discount rate by 50 basis points to 1.5 per cent. Market observers took this as a signal that the Germans would also cut rates, which they did, ten minutes later. Apart from the Discount rate, the Bundesbank also cut the Lombard rate to 5 per cent, from 5.5 per cent. The rate cuts came a day after the UK base rate was cut to 6.5 per cent, from 6.75 per cent.

The German announcement was followed by a string of rate cuts - in Holland, Belgium, Denmark, Austria and Ireland. The Dutch central bank cut the secured loans rate to 2.75 per cent, from 3.25 per cent, while the Danish central bank cut the discount rate to 4.25 per cent, from 4.75 per cent. In Belgium the discount rate was cut to 3 per cent, from 3.5 per cent, while, the Austrian National Bank also cut the discount rate to 3 per cent, from 3.5 per cent. The Irish central bank cut the short-term facility rate to 3.25 per cent, from 3.75 per cent.

There was little currency response to the cuts, which were largely discounted. The two main exceptions were the dollar and the lira, which both weakened against the D-Mark. The lira closed at L1,110 against the D-Mark, from L1,103, with markets nervous about the outcome of a no-confidence vote today.

The dollar, meanwhile, slipped to close at DM1.4410 from DM1.4485. This seemed to be a classic case of "buy the rumour, sell the fact", with traders and investors having recently bought the dollar in anticipation of a cut in German rates. Against the yen it closed at Y101.485, from Y101.805.

Sterling showed little movement on the day, finishing at DM2.2191, from DM2.2219. Against the dollar it closed at $1.5392, from $1.5325.

■ The co-ordinated rate cuts clearly co-ordinated, with this perhaps extending to the 25 basis point cut in UK rates on Wednesday. Mr Eddie George, governor of the Bank of England, said in London, that the UK had expected rates to fall. He said: "We anticipated the Bundesbank move. We had lots of conversations with them."

Mr Neil MacKinnon, chief economist at Citibank in London, said this was not unusual, but hoped it did not establish a precedent. "I hope they are not going to get into the system where they only cut rates when the Bundesbank moves. There is no reason to follow when we are out of the ERM."

Mr MacKinnon, said the big question in the minds of the market is whether this was the final cut in the current interest rate cycle.

The focus has now shifted to the meeting next week of the US Federal Reserve. Expectations that rates will be cut have risen following comments from President Clinton that the rift between the White House and Congress over the budget had narrowed. Mr Alan Greenspan, chairman of the Fed, has come close to saying that rates could not be cut without a budget solution.

Mr Jeremy Hawkins, chief economist at the Bank of America in London, said the dollar's performance may herald further problems for the US currency in the New Year, especially if markets start to believe that German rates have bottomed. Much will depend on market response to a possible cut next week. If bullish sentiment in the bond market persists, this will probably support the dollar.

■ The performance of the D-Mark continued the recent trend whereby currencies which cut interest rates have been rewarded with a stronger currency. Mr Hawkins said this reflected the current market pre-occupation with fiscal balances. Lower interest rates improve the chances of EU countries meeting the Maastricht convergence criteria, because they boost growth and lower the cost of debt service.

One country moving the other way is New Zealand. The central bank yesterday announced that a tightening of monetary conditions was appropriate, given inflation risks. This followed the announcement earlier in the week of a fiscal stimulus package by the government. After weakening in recent weeks, the Kiwi dollar rallied sharply to close at 65.29 US cents, from 64.59 cents on Wednesday.

■ Pound in New York

Dec 14	—Latest—	—Prev. close—
£ spot	1.5395	1.5345
1 mth	1.5417	1.5337
3 mth	1.5421	1.5320
1 yr	1.5321	1.5240

■ OTHER CURRENCIES

Dec 14	£	$
Czech Kr	40.8050 - 40.8890	26.5570 - 26.5670
Hungary	223.882 - 224.085	136.400 - 136.450
Iran	4616.60 - 4616.40	3000.00 - 3009.00
Kuwait	0.4615 - 0.4622	0.2999 - 0.3002
Poland	3.8832 - 3.8890	2.5300 - 2.5320
Russia	7126.65 - 7140.03	4632.00 - 4640.00
UAE	5.6514 - 5.6682	3.6726 - 3.6734

POUND SPOT FORWARD AGAINST THE POUND

Dec 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.6153	-0.0187	055 - 221	15.6661	15.6014	15.5718	[illegible]	15.5278	2.2	-	-	106.8
Belgium	(BFr)	45.6859	-0.0772	946 - 770	45.8580	45.5880	45.5308	2.8	45.3508	2.5	44.6508	2.2	109.1
Denmark	(DKr)	8.6016	-0.0123	975 - 058	8.6424	8.5936	8.5939	[illegible]	8.5728	1.3	8.5141	1.0	109.4
Finland	(FM)	6.6691	-0.0049	612 - 760	6.7000	6.6460	6.6637	[illegible]	6.6586	0.7	-	-	87.6
France	(FFr)	7.6534	-0.0441	509 - 559	7.7079	7.6436	7.6482	0.8	7.6401	0.7	7.5987	0.8	110.0
Germany	(DM)	2.2191	-0.0028	182 - 200	2.2321	2.2153	2.2146	2.5	2.2054	2.5	2.165	2.4	111.5
Greece	(Dr)	367.518	-0.492	342 - 694	369.329	365.949	-	-	-	-	-	-	68.3
Ireland	(I£)	0.9885	+0.0001	875 - 893	0.9705	0.9876	0.9875	1.2	0.9864	0.9	0.9629	0.8	97.3
Italy	(L)	2464.25	+13.84	354 - 567	2473.27	2444.01	2472.71	-4.1	2489.36	-4.0	2582.21	-4.0	70.4
Luxembourg	(LFr)	45.6859	-0.0772	946 - 770	45.8580	45.5880	45.5308	2.8	45.3508	2.5	44.6508	2.2	109.1
Netherlands	(Fl)	2.4837	-0.0046	827 - 846	2.4875	2.4823	2.4778	2.8	2.4674	2.6	2.4234	2.4	109.2
Norway	(NKr)	9.7968	-0.0252	880 - 048	9.8444	9.7655	9.7857	1.3	9.7762	1.3	9.684	1.2	98.1
Portugal	(Es)	232.596	-0.796	467 - 726	234.435	231.838	233.021	-2.2	233.926	-2.3	-	-	95.1
Spain	(Pta)	188.854	-0.105	742 - 959	188.542	186.436	188.939	-3.1	190.294	-3.0	194.509	-3.0	81.9
Sweden	(SKr)	10.2470	-0.0414	392 - 548	10.3291	10.2137	10.2499	-0.2	10.2625	-0.2	10.2677	-0.2	87.2
Switzerland	(SFr)	1.7942	-0.0099	932 - 951	1.8086	1.7932	1.7877	4.3	1.7747	4.4	1.7189	4.2	115.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.0
Ecu	-	1.2116	-0.0014	106 - 128	1.2175	1.2089	1.2105	1.1	1.2084	1.1	1.2003	0.9	-
SDR†	-	1.03421	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5389	+0.0087	385 - 393	1.5410	1.5329	-	-	-	-	-	-	-
Brazil	(R$)	1.4861	+0.0087	876 - 885	1.4892	1.4814	-	-	-	-	-	-	-
Canada	(C$)	2.1155	+0.0072	146 - 164	2.1177	2.1083	2.114	[illegible]	2.1128	0.5	2.1086	0.3	83.3
Mexico	(New Peso)	12.0285	+0.106	103 - 466	12.0468	11.9106	-	-	-	-	-	-	-
USA	($)	1.5392	+0.0087	388 - 395	1.5412	1.5329	1.5384	0.6	1.5368	0.6	1.5289	0.7	84.1
Pacific/Middle East/Africa													
Australia	(A$)	2.0798	+0.0221	786 - 810	2.0810	2.0674	2.0813	-0.9	2.0851	-1.0	2.1016	-1.0	85.3
Hong Kong	(HK$)	11.9053	+0.0518	018 - 088	11.9205	11.8574	11.8992	[illegible]	11.8902	0.5	11.8836	0.3	-
India	(Rs)	53.8164	+0.2572	895 - 440	53.5730	53.4850	-	-	-	-	-	-	-
Israel	(Shk)	4.7939	+0.0172	889 - 988	4.7983	4.7785	-	-	-	-	-	-	-
Japan	(Y)	158.201	+0.389	127 - 275	158.450	155.810	155.366	[illegible]	153.861	6.0	147.521	5.6	142.4
Malaysia	(M$)	3.9115	+0.0121	095 - 131	3.9177	3.8889	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3578	-0.0137	558 - 594	2.3820	2.3521	2.3605	[illegible]	2.3676	-1.7	2.3917	-1.4	101.2
Philippines	(Peso)	40.3981	+0.1496	135 - 626	40.3780	40.1896	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7727	+0.0251	710 - 744	5.7800	5.7496	-	-	-	-	-	-	-
Singapore	(S$)	2.1799	+0.0081	788 - 812	2.1823	2.1717	-	-	-	-	-	-	-
South Africa	(R)	5.6433	+0.0253	412 - 453	5.6500	5.6227	-	-	-	-	-	-	-
South Korea	(Won)	1186.76	+7.31	841 - 711	1188.27	1180.28	-	-	-	-	-	-	-
Taiwan	(T$)	42.0488	+0.1892	369 - 607	42.1025	41.8785	-	-	-	-	-	-	-
Thailand	(Bt)	38.6942	+0.1607	700 - 184	38.7300	38.5550	-	-	-	-	-	-	-

† Rates for Dec 13. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.1454	-0.0586	433 - 475	10.2280	10.1370	10.1299	1.8	10.1039	1.6	10.0004	1.4	108.4
Belgium	(BFr)	29.6600	-0.18	300 - 700	29.8770	29.6000	29.593	2.1	29.51	1.9	29.205	1.5	108.6
Denmark	(DKr)	5.5885	-0.0325	870 - 900	5.6324	5.5827	5.5847	0.8	5.5765	0.7	5.595	-0.1	108.5
Finland	(FM)	4.3323	-0.0153	298 - 358	4.3661	4.3260	4.3273	1.4	4.3188	1.3	4.2898	1.0	86.8
France	(FFr)	4.9725	-0.0505	720 - 730	5.0190	4.9635	4.976	-0.8	4.9833	-0.9	4.995	-0.5	108.9
Germany	(DM)	1.4418	-0.0081	415 - 420	1.4542	1.4380	1.4395	1.9	1.435	1.9	1.4188	1.6	110.6
Greece	(Dr)	238.780	-1.345	720 - 840	240.490	238.410	240.505	-8.7	243.705	-8.3	257.18	-7.7	65.7
Ireland	(I£)	1.5593	+0.0083	883 - 903	1.5607	1.5815	1.5597	-0.3	1.5602	-0.2	1.5683	0.2	-
Italy	(L)	1601.03	+1.7	030 - 180	1607.90	1592.60	1607.9	-5.1	1619.95	-4.7	1678.05	-4.8	70.8
Luxembourg	(LFr)	29.6600	-0.18	300 - 700	29.8770	29.6000	29.598	2.1	29.51	1.9	29.205	1.5	108.6
Netherlands	(Fl)	1.6137	-0.01	134 - 139	1.6277	1.6127	1.6105	2.3	1.6055	2.0	1.5881	1.7	108.4
Norway	(NKr)	6.3651	-0.0442	613 - 688	6.4425	6.3375	6.3628	0.4	6.3546	0.7	6.3378	0.4	97.0
Portugal	(Es)	151.120	-1.18	070 - 170	152.470	150.510	151.495	-3.0	152.265	-3.0	155.67	-3.1	94.9
Spain	(Pta)	122.700	-0.605	650 - 740	123.490	122.460	122.995	-2.9	123.63	-3.7	127.32	-3.8	81.5
Sweden	(SKr)	6.6576	-0.0581	540 - 611	6.7237	6.6320	6.6747	-3.1	6.7041	-2.8	6.8418	-2.8	86.3
Switzerland	(SFr)	1.1657	-0.0118	653 - 660	1.1786	1.1645	1.1621	3.7	1.1554	3.5	1.127	3.3	114.3
UK	(£)	1.5392	+0.0087	388 - 395	1.5412	1.5329	1.5384	0.6	1.5368	0.6	1.5289	0.7	82.5
Ecu	-	1.2704	+0.007	699 - 709	1.2722	1.2610	1.2707	-0.3	1.2711	-0.2	1.2717	-0.1	-
SDR†	-	0.67507	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	0.9655	+0.0001	657 - 660	0.9666	0.9657	-	-	-	-	-	-	-
Canada	(C$)	1.3745	-0.0013	742 - 747	1.3785	1.3734	1.3745	0.0	1.375	-0.1	1.38	-0.4	82.3
Mexico	(New Peso)	7.8150	-0.035	050 - 250	7.8250	7.7950	7.8173	-0.3	7.8205	-0.3	7.8253	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	95.4
Pacific/Middle East/Africa													
Australia	(A$)	1.3512	+0.0086	508 - 517	1.3520	1.3422	1.3532	-1.8	1.3567	-1.6	1.3754	-1.8	86.9
Hong Kong	(HK$)	7.7350	-	345 - 355	7.7360	7.7340	7.7357	-0.1	7.7375	-0.1	7.7645	-0.4	-
India	(Rs)	34.9650	+0.015	500 - 750	34.9800	34.8590	35.115	-5.1	35.42	-5.2	36.89	-5.5	-
Israel	(Shk)	3.1146	-0.0025	121 - 171	3.1175	3.1089	-	-	-	-	-	-	-
Japan	(Y)	101.495	-0.19	450 - 510	101.830	101.300	100.97	6.1	100.125	5.4	96.55	4.9	142.9
Malaysia	(M$)	2.5413	-0.0032	409 - 418	2.5440	2.5405	2.5422	-0.4	2.5483	-1.1	2.5718	-1.2	-
New Zealand	(NZ$)	1.5316	-0.0157	309 - 326	1.5344	1.5306	1.5347	-2.4	1.5405	-2.3	1.5651	-2.2	-
Philippines	(Peso)	26.2080	-0.017	980 - 180	26.2180	26.1980	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	-	503 - 508	3.7508	3.7503	3.751	-0.1	3.7517	-0.1	3.7581	-0.1	-
Singapore	(S$)	1.4163	-0.0002	158 - 168	1.4175	1.4157	1.4127	3.0	1.4057	2.7	1.3813	2.5	-
South Africa	(R)	3.6665	+0.0005	660 - 670	3.6700	3.6655	3.6845	-6.1	3.7435	-8.6	3.9575	-8.8	-
South Korea	(Won)	771.050	+1.4	000 - 100	771.200	769.700	774.05	-4.7	779.55	-4.4	798.05	-3.2	-
Taiwan	(T$)	27.3195	+0.004	180 - 210	27.3220	27.3150	27.3395	-0.9	27.3795	-0.9	-	-	-
Thailand	(Bt)	25.1400	-0.005	300 - 500	25.1500	25.1300	25.2287	-4.2	25.4425	-4.8	26.325	-4.7	-

† SDR rate per $ for Dec 13. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 13: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

December 14	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3⅞	3⅞	3⅞	3⅞	3⅞	7.00	3.00	-
week ago	3⅞	3⅞	3⅞	3⅞	3⅞	8.00	3.50	-
France	5⅛	5⅛	5⅛	5⅛	4⅞	4.70	-	6.10
week ago	5⅛	5⅛	6⅛	6	5⅞	4.70	-	6.10
Germany	3⅞	3⅞	3⅞	3⅞	3⅞	5.00	3.00	3.98
week ago	4	3⅞	3⅞	3⅞	3⅞	5.60	3.50	3.98
Ireland	5⅝	5⅛	5⅛	5½	5⅞	-	-	6.25
week ago	5⅝	5⅛	5⅛	5⅝	5⅞	-	-	6.25
Italy	10⅞	10⅛	10⅞	10⅛	10⅛	-	9.00	10.51
week ago	10⅛	10⅛	10⅞	10¼	10⅞	-	9.00	10.51
Netherlands	3½	3½	3½	3½	3½	-	3.50	3.40
week ago	3¾	3½	3⅞	3⅞	3⅞	-	3.50	3.60
Switzerland	1	1⅞	1⅞	1⅞	1⅞	5.00	2.00	-
week ago	2	1⅞	2⅛	2⅛	2⅛	5.00	2.00	-
US	5⅞	5⅞	5⅞	5⅛	5½	-	5.25	-
week ago	5⅞	5⅞	5⅞	5⅛	5⅞	-	5.25	-
Japan	⅛	⅛	⅛	⅜	⅜	-	0.50	-
week ago	⅝	⅛	⅛	[illegible]	⅜	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅞	5⅞	5⅞	5⅛	-	-	-
week ago	-	5⅞	5⅞	5⅝	5½	-	-	-
US Dollar CDs	-	5.20	5.32	5.31	5.28	-	-	-
week ago	-	5.20	5.28	5.26	5.23	-	-	-
ECU Linked Ds	-	5⅛	5⅛	5⅛	5	-	-	-
week ago	-	5⅛	5⅛	5⅛	5⅛	-	-	-
SDR Linked Ds	-	3⅝	3⅞	3⅝	3⅞	-	-	-
week ago	-	3⅝	3⅛	3⅞	3⅛	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 14	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3¾
Danish Krone	4⅞ - 4⅞	5⅛ - 4⅞	5⅛ - 5⅛	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞
D-Mark	5⅞ - 5⅞	4⅛ - 3⅞	4⅛ - 3⅞	3⅞ - 3⅞	3¾ - 3⅝	3¾ - 3⅝
Dutch Guilder	3⅝ - 3½	3⅝ - 3⅜	3⅝ - 3½	3⅞ - 37	3⅞ - 3⅞	3⅞ - 3⅞
French Franc	5⅝ - 6¼	5⅞ - 5⅝	5½ - 5⅝	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞
Portuguese Esc.	8⅞ - 8⅞	8⅞ - 8¾	8⅞ - 8⅞	9⅛ - 8⅞	9 - 8⅞	9 - 8⅞
Spanish Peseta	9⅛ - 9⅛	9⅞ - 9⅛	9⅛ - 9⅛	9⅛ - 9⅛	9⅛ - 9	9⅛ - 9
Sterling	6⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6⅞	6⅛ - 6⅛	6⅞ - 6¼	6¼ - 6⅛
Swiss Franc	1½ - 1¼	1⅝ - 1⅜	2 - 1¾	1⅞ - 1¾	1⅞ - 1¾	1⅞ - 1¾
Can. Dollar	6¼ - 6	6 - 5⅞	6⅛ - 5⅞	6⅛ - 5⅞	6⅛ - 5⅞	6¼ - 6
US Dollar	5¾ - 5½	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅝	5⅞ - 5⅞	5⅞ - 5⅜
Italian Lira	10⅞ - 10⅞	10⅞ - 10⅞	10⅞ - 10⅞	10⅞ - 10⅞	10⅞ - 10⅞	10⅞ - 10⅞
Yen	½ - ⅜	⅞ - ⅞	⅜ - ⅞	⅜ - ¼	⅞ - ⅜	⅞ - ⅞
Asian $Sing	1½ - 1⅜	2⅛ - 2	2⅞ - 2⅞	2⅞ - 2⅞	2¾ - 2⅝	2⅞ - 2⅞

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.14	94.39	+0.33	94.54	94.12	57,548	37,839
Mar	94.59	94.78	+0.27	94.95	94.58	35,924	42,924
Jun	94.86	94.99	+0.19	95.04	94.85	11,353	36,359

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.10	96.15	+0.05	96.25	96.10	62693	132749
Mar	96.39	96.45	+0.06	96.50	96.39	60882	171657
Jun	96.49	96.56	+0.08	96.60	96.48	36493	136502
Sep	96.44	96.51	+0.09	96.54	96.43	23773	103701

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	89.53	89.42	-0.08	89.54	89.34	5388	18190
Mar	89.90	89.73	-0.13	89.98	89.60	15507	35556
Jun	90.21	90.13	-0.05	90.27	90.06	2298	19922
Sep	90.29	90.24	-0.03	90.34	90.16	847	11713

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.95	98.13	+0.18	98.16	97.95	5705	12668
Mar	98.18	98.29	+0.12	98.30	98.14	13654	21092
Jun	98.24	98.32	+0.11	98.33	98.18	2587	12177
Sep	98.08	98.24	+0.15	98.30	98.08	1513	5966

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.62	94.68	+0.10	94.71	94.61	1046	4698
Mar	94.81	94.89	+0.09	94.93	94.81	1096	5377
Jun	94.94	94.97	+0.08	95.00	94.94	318	4476
Sep	94.93	94.98	+0.08	95.00	94.93	77	2265

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
8925	0.20	0.67	1.09	0.03	0.19	0.21
8950	0.03	0.48	0.91	0.11	0.25	0.28
8975	0.01	0.34	0.74	0.34	0.36	0.38

Est. vol. total, Calls 685 Puts 225. Previous day's open int., Calls 19521 Puts 10858

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 14		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.86	16.77	4.862	2.123	5399	5.443	21.47	509.6	413.7	22.46	3.931	2.191	4.636	3.372	342.2	2.656
Denmark	(DKr)	53.06	10	8.897	2.580	1.126	2864	2.888	11.39	270.4	219.5	11.92	2.086	1.163	2.460	1.789	181.6	1.409
France	(FFr)	59.64	11.24	10	2.900	1.266	3220	3.246	12.80	303.9	246.7	13.39	2.344	1.307	2.765	2.011	204.1	1.584
Germany	(DM)	20.57	3.877	3.448	1	0.437	1110	1.119	4.415	104.8	85.06	4.619	0.808	0.451	0.954	0.694	70.39	0.546
Ireland	(I£)	47.10	8.877	7.898	2.290	1	2543	2.563	10.11	240.0	194.8	10.58	1.851	1.032	2.184	1.588	161.2	1.251
Italy	(L)	1.852	0.349	0.311	0.090	0.039	100	0.101	0.398	9.440	7.662	0.416	0.073	0.041	0.086	0.062	6.339	0.049
Netherlands	(Fl)	18.37	3.463	3.081	0.893	0.390	991.8	1	3.944	93.64	76.01	4.126	0.722	0.403	0.852	0.620	62.88	0.488
Norway	(NKr)	46.59	8.780	7.812	2.265	0.989	2515	2.535	10	237.4	192.7	10.46	1.831	1.021	2.160	1.571	159.4	1.237
Portugal	(Es)	19.62	3.696	3.290	0.954	0.417	1059	1.068	4.212	100	81.17	4.407	0.771	0.430	0.910	0.662	67.15	0.521
Spain	(Pta)	24.17	4.556	4.053	1.175	0.513	1305	1.315	5.189	123.2	100	5.429	0.950	0.530	1.121	0.815	82.73	0.642
Sweden	(SKr)	44.53	8.392	7.466	2.165	0.945	2404	2.423	9.558	226.9	184.2	10	1.750	0.976	2.064	1.501	152.4	1.182
Switzerland	(SFr)	25.44	4.795	4.266	1.237	0.540	1373	1.385	5.461	129.7	105.2	5.713	1	0.557	1.179	0.858	87.07	0.676
UK	(£)	45.64	8.602	7.653	2.219	0.969	2464	2.484	9.797	232.8	188.8	10.25	1.794	1	2.116	1.539	156.2	1.212
Canada	(C$)	21.57	4.065	3.617	1.048	0.458	1164	1.174	4.630	109.9	89.22	4.844	0.848	0.473	1	0.727	73.82	0.573
US	($)	29.66	5.589	4.973	1.442	0.630	1601	1.614	6.366	151.1	122.7	6.660	1.166	0.650	1.376	1	101.5	0.788
Japan	(Y)	29.22	5.507	4.899	1.421	0.620	1577	1.590	6.272	148.9	120.9	6.562	1.149	0.640	1.355	0.985	100	0.776
Ecu		37.66	7.097	6.314	1.831	0.800	2033	2.050	8.083	191.9	155.8	8.457	1.480	0.825	1.746	1.270	128.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6902	0.6939	+0.0045	0.6944	0.6885	8,394	35,940
Mar	0.6920	0.6978	+0.0053	0.6978	0.6915	18,605	44,209
Jun	0.6960	0.6995	+0.0040	0.7000	0.6960	25	2,103

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8515	0.8578	+0.0076	0.8600	0.8492	4,337	20,478
Mar	0.8573	0.8655	+0.0077	0.8680	0.8568	11,557	32,740
Jun	0.8655	0.8725	+0.0072	0.8740	0.8655	31	741

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.9834	0.9869	+0.0025	0.9880	0.9827	9,047	27,891
Mar	0.9975	1.0001	+0.0023	1.0020	0.9958	11,837	48,526
Jun	1.0102	1.0123	+0.0020	1.0124	1.0102	36	850

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5350	1.5410	+0.0072	1.5420	1.5350	2,806	31,223
Mar	1.5282	1.5380	+0.0066	1.5390	1.5282	10,354	34,151
Jun	-	1.5320	-	1.5360	-	8	18

UK INTEREST RATES

LONDON MONEY RATES

Dec 14	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6¾ - 6⅛	6⅝ - 6⅜	6½ - 6⅜	6⅞ - 6⅞	6⅜ - 6⅞	6⅞ - 6⅞
Sterling CDs	-	-	6⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6⅜
Treasury Bills	-	-	6⅜ - 6⅞	6⅞ - 6⅞	-	-
Bank Bills	-	-	6⅜ - 6⅞	6⅞ - 6¼	6⅞ - 6⅞	-
Local authority deps.	6⅞ - 6⅞	6½ - 6⅜	6⅞ - 6⅜	6⅞ - 6⅞	6⅞ - 6⅞	6¼ - 6⅞
Discount Market deps	6⅝ - 6¼	6½ - 6⅜				

UK clearing bank base lending rate 6½ per cent from December 13, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	5¾	5¾	5	6¼

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount 6.2281pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 30, 1995. Agreed rate for period Dec 26, 1995 to Jan 25, 1996, Schemes II & III 7.96pc. Reference rate for period Nov 1, 1995 to Nov 30, 1995, Schemes IV & V 8.226pc. Finance House Base Rate 7pc from December 1, 1995

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.50	93.50	+0.02	93.51	93.48	7422	66313
Mar	93.82	93.83	+0.02	93.87	93.81	16734	91573
Jun	93.97	94.02	+0.07	94.05	93.97	12965	64407
Sep	93.99	94.06	+0.07	94.06	93.98	11234	49940
Dec	93.86	93.92	+0.09	93.93	93.86	5013	32871

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9350	0.02	0.38	0.62	0.02	0.05	0.10
9375	0	0.20	0.43	0.25	0.12	0.16
9400	0	0.08	0.26	0.50	0.25	0.26

Est. vol. total, Calls 3266 Puts 5025. Previous day's open int., Calls 170783 Puts 166128

EMS EUROPEAN CURRENCY UNIT RATES

Dec 14	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.15214	2.10578	+0.00203	-2.15	5.68	18
Belgium	39.3960	38.6630	+0.0397	-1.86	5.36	14
Spain	162.493	159.793	-0.046	-1.66	5.15	12
Germany	1.91007	1.88106	+0.0019	-1.52	4.99	15
Austria	13.4383	13.2362	+0.0146	-1.50	4.98	11
Denmark	7.28580	7.28993	+0.00668	0.06	3.34	-0
Portugal	195.792	197.194	-0.068	0.72	2.66	-5
France	6.40608	6.47727	-0.02154	1.11	2.26	-9
Ireland	0.792214	0.819144	+0.000646	3.40	0.00	-23
NON ERM MEMBERS						
Greece	292.867	311.239	+0.143	6.27	-2.70	-
Italy	2106.15	2074.67	+3.76	-1.49	4.97	-
UK	0.786652	0.845334	+3e-06	7.46	-3.78	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.520	1.22	2.20	2.91	0.11	1.05	1.97
1.530	0.49	1.63	2.43	0.12	1.48	2.37
1.540	0.10	1.19	1.98	0.29	2.04	2.87
1.550	-	0.82	1.54	0.90	2.62	3.47
1.560	-	0.54	1.20	1.76	3.34	4.12
1.570	-	0.37	0.92	2.67	4.13	4.83

Previous day's vol., Calls 7,392 Puts 2,182. Prev. day's open int., Calls 280,586 Puts 326,452

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.21	94.21	-	94.22	94.19	41,211	273,730
Mar	94.55	94.59	+0.03	94.61	94.55	62,458	416,585
Jun	94.77	94.81	+0.08	94.83	94.75	85,528	391,497

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.99	95.01	-	95.04	94.98	706	7,585
Jun	95.21	95.22	-	95.24	95.21	81	2,032
Sep	-	95.22	+0.02	95.22	-	5	38

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
9600	0.16	0.45	0.46	0.47	0.01	0	0.01	0.02
9625	0.01	0.21	0.22	0.25	0.11	0.01	0.03	0.05
9650	0	0.05	0.07	0.09	0.35	0.10	0.12	0.14

Est. vol. total, Calls 16955 Puts 21514. Previous day's open int., Calls 266800 Puts 272261

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9800	0.14	0.35	0.40	0.01	0.04	0.08
9825	0.01	0.15	0.22	0.13	0.11	0.15
9850	0	0.05	0.10	0.37	0.26	0.26

Est. vol. total, Calls 400 Puts 116. Previous day's open int., Calls 11882 Puts 3556

BASE LENDING RATES

	%		%		%
Adam & Company	6.50	Duncan Lawrie	6.50	Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	10
Allied Trust Bank	6.50	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7.50	●Singer & Friedlander	6.50
●Henry Ansbacher	6.50	●Robert Fleming & Co	6.50	●Smith & Williamson Secs.	6.50
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.50	●Guinness Mahon	6.75	United Bank of Kuwait	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.50	Unity Trust Bank Plc	6.50
Bank of Ireland	6.50	●Hambros Bank	6.50	Western Trust	6.50
Bank of India	6.50	Heritable & Gen Inv Bk	6.75	Whiteaway Laidlaw	6.50
Bank of Scotland	6.75	●Hill Samuel	6.75	Yorkshire Bank	6.75
Barclays Bank	6.50	C. Hoare & Co	6.50		
Brit Bk of Mid East	6.50	Hongkong & Shanghai	6.50		
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75		
Citibank NA	6.50	●Leopold Joseph & Sons	6.50		
Clydesdale Bank	6.50	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.50		
Coutts & Co	6.50	Midland Bank	6.50		
Credit Lyonnais	6.50	● Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.50		

● Members of London Investment Banking Association
* In administration

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cm 2nd Pfl		50½	—	65	50¼	6.31	19.6	–
Cater Allen	♣‡v	487xd	—	525	418	142.5	8.6	7.2
Close Bros	♣v□	325	—	*340½	216¼	388.8	3.3	14.4
Gerrard & Nat	♣v	403xd	—	435	335	221.1	6.2	14.6
Hambros	v□	261xd	—	258	180	356.4	4.7	–
7½pc Cv Pf		98	+2	112	94	127.5	9.5	–
Joseph (L)	♣‡v	480xd	—	483	353	34.4	5.1	25.7
King & Shaxson	♣v□	144	—	145	85	37.0	7.8	11.2
Rea Brothers	♣v	58	+2	67	44	24.4	2.5	20.0
Schroders	♣†bv□	1348	+5	*1478	905¼	2,035	1.3	19.2
N/V	†bv	1133	+3	*1180	823¼	587.3	1.5	18.4
Singer & Fried	♣†v□	110½	—	111	81	237.4	4.2	11.4
8½pc Cv Ln 09/14		£135¾	—	£137	[illegible]	41.6	6.3	–
Union	♣v□	100	-2	121	70	28.6	3.8	–
Wintrust	♣v	270	—	285	200	23.2	6.3	16.4

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl	□	£28[illegible]	-⅛	£28¾	£21¾	8,658	4.5	10.6
ANZ A$		298	—	298	198	4,113	5.4	φ
Abbey National	♣†v□	637	+4	654	397¼	8,408	3.8	12.8
Allied Irish I£	♣†□	357	-1	368	248	2,379	4.0	10.4
Anglo Irish I£	□	68xd	—	70	48	227.1	6.6	φ
Asahi Y	□	798¼	+17¼	857¼	605¼	18,287	0.8	–
Banco Bil Viz Pts	□	£21[illegible]	—	£21[illegible]	£14[illegible]	4,885	3.9	9.4
Banco Sant Pts		£31¼	—	£31¼	£22¼	4,871	4.3	21.2
Bk Ireland I£	†v□	477xd	—	483	288	2,268	3.6	9.6
Bank Scotland	♣†v□	280xd	+12	284	191½	3,416	2.6	12.8
9¼pc Pf		128	+¼	130	109¼	128.8	9.6	–
9¾pc Pf		128¼	—	127¼	112¼	128.2	9.7	–

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

OIL, EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

OTHER SERVICES & BUSINESSES - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£31⅛	—	£34	£29	2,111	2.7	15.5
Barlow	♣	[illegible]	+⅛	[illegible]	[illegible]	1,801	1.7	Φ
Gold Flds Prop R		154	—	165	138	13.7	6.9	6.9
MK Props		92	—	95	85	3.70	13.0	–
SASOL	♥	515	-7	648	435	3,015	2.7	–
SA Brews		£23⅛xd	+⅛	£23⅛	£17⅞	[illegible]	1.5	31.3
Standard Bank	□	[illegible]	+⅛	£31⅛	£23⅛	3,579	1.8	20.5
Tiger Oats		1180xd	-5	1195	700	1,775	1.6	Φ
Tongaat-Hulett	†	1085xd	—	1100	635	970.6	1.8	20.1

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formats.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
r Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield includes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xc ex capital distribution.

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BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda

[illegible]

Prices for dealing December 13

Jupiter Tyndall (Bermuda) Ltd
PO Box HM1258, Hamilton, Bermuda 001 809 292 2780
Jupiter Tyndall World Umbrella Fund Ltd

[illegible]

Newport Investment Management
73 Front street, Hamilton, Bermuda

[illegible]

Orion Fund Limited
6 Front St., Hamilton, HM11, Bermuda 441 292 6570
Orion Dec 7 $26.72

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

[illegible]

Latest Fund Prices 24hr service 01481 718843

Sarasin Funds Mngmt (Guernsey) Ltd
PO Box 348, St Peter Port, Guernsey 01481 729021

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd
PO Box 255, St Peter Port, Guernsey 01481 710851

[illegible]

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

AB International Fund Ltd

Bachmann Global Investment Fund Ltd

CIBC Fund Managers (Guernsey) Ltd

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

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LUXEMBOURG (REGULATED)(**)

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MARKET REPORT

FT-SE 100 retreats from intra-day record

By Steve Thompson,
UK Stock Market Editor

London's equity market delivered another confident performance yesterday, achieving an all-time intra-day high after Germany's Bundesbank lowered both its Lombard and discount rates by 50 basis points.

The German move, dealers said, kept European markets on their upward path, following so closely on the UK interest rate cut.

Markets are now said to be factoring in a reduction in US rates after the US Federal Open Market Committee meets on Tuesday.

The FT-SE 100 index finished well below the day's high of 3,686.5, however, settling a net 9.2 ahead at 3,671.6. That was almost 9 points below its previous record closing peak.

The FT-SE Mid 250 index, unlike the FT-SE 100, generally maintained its earlier momentum, closing 19.4 higher at 3,961.7. The junior index was lifted by some powerful performances from the market's leading insurance brokers, Sedgwick and Willis Corroon, and Inchcape, the international trading house which controls the Bain Hogg insurance broking company.

A deal involving Bain was thought to be imminent and would, according to market speculation, have triggered a bout of rationalisation across the insurance broking sector, possibly involving bids from the US or mergers.

Some dealers described London's performance as slightly disappointing, given the UK and German interest rate moves. But they attributed the slowdown in the market during the afternoon to the sluggish opening on Wall Street, where the Dow Jones Industrial Average quickly came off after edging higher at the opening. The Dow was around 10 points down an hour after London closed.

Most traders were happy with the underlying base of the London market, pointing out that there was never any substance to the pockets of profit-taking yesterday. Some expect the FT-SE 100 to have another dash at 3,700 by the end of the year and said any funds underweight in banks and oils, two of the outstanding sectors this year, will have underperformed and will have to top up weightings very quickly.

Shell Transport and BP were among the outstanding performers in the leaders, especially the former after a recent US presentation. BP closed almost 30p above the price at which SBC Warburg placed the government's remaining 101m-share stake just over a week ago.

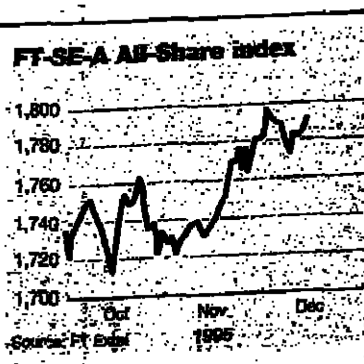
Bid hints continued to drive the Scottish banks ahead, while Tomkins' acquisition of Gates Rubber continued to push the latter higher.

On the downside, Vodafone and British Aerospace came in for a flurry of late selling pressure after a profits warning from Nokia, one of this year's star performers among the European hi-tech stocks.

Turnover in equities remained at relatively high levels. At 6pm, turnover totalled 868.4m shares, and was given a substantial boost by suspicions of heavy bed and breakfast, or tax-related, activity in Sears, British Gas and Hanson.

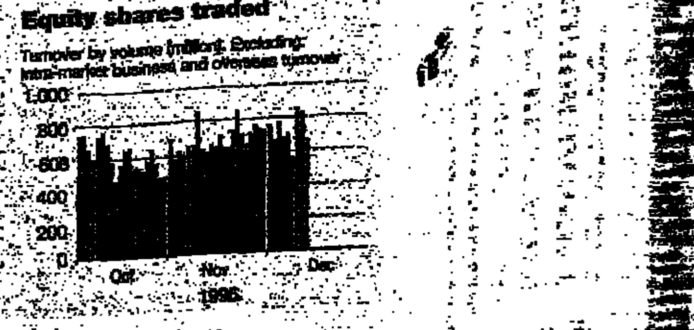
Southern Water was another stock to attract heavy activity after the group instructed its broker SBC Warburg to buy in 10 per cent of its shares.

FT-SE-A All-Share index



Equity shares traded

Turnover by volume (millions). Excluding: intra-market business and overseas turnover



Source: FT Extel

■ Indices and ratios

FT-SE 100	3671.6	+9.2	FT Ordinary index	2656.4	+7.4
FT-SE Mid 250	3961.7	+19.4	FT-SE-A Non Fins p/e	16.51	(16.47)
FT-SE-A 350	1817.9	+5.5	FT-SE 100 Fut Dec	3675	+14.5
FT-SE-A All-Share	1790.73	+5.15	10 yr Gilt yield	7.38	(7.43)
FT-SE-A All-Share yield	3.82	(3.82)	Long gilt/equity yld ratio	2.03	(2.03)

■ Best performing sectors

1	Household Goods	+1.8
2	Oil, Integrated	+1.5
3	Insurance	+1.4
4	Electronic & Elec	+1.4
5	Oil Exploration	+1.4

■ Worst performing sectors

1	Tobacco	-1.0
2	Electricity	-1.0
3	Retailers, Food	-0.7
4	Spirits, Wines & Cid	-0.7
5	Other Services & Bus	-0.6

Shell at all-time high

Leading oil shares helped London to remain on firm ground as they shot forward on a combination of price boosting factors.

Initially, British Petroleum and Shell Transport moved ahead in the UK after their American Depositary Receipts were helped by a new record high on Wall Street. Analysts said some 30 per cent of BP shares are currently held in ADR form. And while only 3 per cent of Shell Transport is in US hands, about 43 per cent of the Dutch arm is held in the US.

Gushing oil prices also gave the shares a lift. The price of Brent crude hit a six-month high as it broke through $18 a barrel.

And Shell Transport also received support from a US conference, at which the company gave optimistic comments about its Shell Oil side. It expects average annual profits growth through to 1998 of 14 per cent for oil, compared with 4 per cent in 1995, and a 16 per cent annual improvement for gas, compared with 11 per cent this year.

Shell forged ahead 17 to a new closing high of 860p, a rise that accounted for three points on the Footsie. And BP moved forward 5½ to 542½p.

Southern Water bought back 10 per cent of its shares in the market yesterday. But the prospect of fund managers having around £112m to reinvest in the London market failed to sharpen the wits of sector salesmen.

Old takeover stories that have been buzzing around for months resurfaced. And some cynical analysts suggested that they may have represented nothing more than a way of trying to persuade institutional investors to part with cash at a traditionally quiet time of year.

Potential aggressors were said to be BAT Industries and HSBC, while the takeover targets were seen to be Guardian Royal Exchange, Royal Bank of Scotland and Bank of Scotland.

GRE rose 6 to 272p, RBoS 10 to 586p and Bank of Scotland 12 to 290p. BAT Industries fell 5 to 566p and HSBC 5¼ to 1004½p. However, analysts were extremely sceptical. Two analysts said HSBC was so concerned about rumours surrounding it that Mr Douglas Flint, the new finance director, had been steering specialists away from the idea during one-on-one sessions.

"If all the HSBC rumours were true it would be in the process of buying 19 banks," said one banks analyst.

Southern Water, which bought 16.9m shares through SBC Warburg at 665p a share, appreciated 9 to end at 667p.

Insurance brokers shot forward as a spate of bid fever swept through the sector.

Initial enthusiasm centred on Willis Corroon taking on Bain Hogg, the broking arm of Inchcape, the international trader. The latter has wanted to dispose of Bain for some time and is keen to recapture value after its recent departure from the Footsie.

Inchcape denied the story and it seemed later that Aon, of the US, would be a more likely buyer. Nevertheless, this did not stop the UK insurance brokers moving sharply higher and Willis, which had outperformed the broad market by 8 per cent over the past month on the back of US buying, added 4½ at 146p. Sedgwick rose 8 to 124p and Lloyd Thompson 10 to 164p as directors bought stock and Merrill Lynch recommended it. Inchcape rebounded 12 to 230p.

Any bids among the sector leaders is bound to hinge on PDFM. The aggressive fund manager owns 25 per cent of Sedgwick and 19 per cent of Corroon.

A profits warning from Finnish high-technology group Nokia hit cellular stocks. Vodafone crashed to the bottom end of the Footsie rankings in heavy volume and Amstrad, which produces the Dancall handset, was the worst performing share in the FT-SE Mid 250 index.

Vodafone, mobile phones leader in the UK, lost 8 to 208½p in 15m traded. Amstrad fell 12¾ to 217½p for a drop of 8 per cent in four trading days. British Aerospace, which has a 38 per cent stake in Orange, eased 3 to 790p.

Diversified industrial Tomkins jumped to a new 1995 high as analysts and investors continued to warm to the group's latest takeover. The shares surged to the top of the Footsie performance table with a rise of 15 to 284p in 13m traded.

Among brewers, Scottish & Newcastle put on 9 at 617p following switch advice. A leading broker was said to have urged clients to move out of Bass, a penny better at 727p.

Restaurant and hotels leader Forte dipped 6½ to 329½p in the third heaviest single-day volume since the bid by Granada was announced last month. The shares traded 12m. Granada lost 2 at 685p.

Inclusion in ABN Amro Hoare Govett's best buys list drove electronics giant GEC sharply ahead in above average turnover.

The broker expects GEC's management succession difficulties to be resolved early next year and points to the group's strong underlying earnings.

But the main thrust to the nap selection status comes from ABN's adjustment to the shares' rating. By taking out GEC's huge cash balances the broker concludes that the shares sell on a price/earnings discount to the market average of 26 per cent.

Up 7 to 326p in above average turnover of 7m, the shares figured prominently in the top 10 Footsie stocks.

The copper cable groups moved ahead following news of BICC's big US contract. BICC added 8 at 271p and Delta gained 11 at 399p.

Supermarket group Asda rose a penny to 106½p after first-half profits ahead of expectations.

However, the figures, especially the strong sales growth, had a more marked effect on some of Asda's rivals. Competition concerns prompted Panmure Gordon, among others, to downgrade Kwik Save, which fell 6 to 513p, and J. Sainsbury, 5 cheaper at 374p.

Arjo Wiggins Appleton slipped 4 to 157p as it was revealed that Appleton Paper, its US unit, was being indicted for alleged price-fixing on thermal fax paper.

The company said it would make no provision for any liability and did not expect any liability to have an adverse effect on its balance sheet. However, the market saw the news as another item in a catalogue of troubles that has affected the company since the downturn in the paper industry began this summer.

Smiths Industries put on 16 at 637p and T&N, buoyed by speculation that a round of analysts' briefings will shortly provide good news on trading, rose 4 to 164p.

A clutch of interim figures failed to jump-start the regional electricity stocks. In spite of a strong rise in profits, Southern Electricity fell 12 to 928p, as it produced what many analysts felt was a niggardly 50p a share special dividend payout relating to its National Grid stake. Analysts had expected at least £1 a share, possibly as much as £1.50.

Yorkshire, due to publish figures today, shed 15 to 670p.

MARKET REPORTERS:
Peter John,
Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Dec 14	Dec 13	Dec 12	Dec 11	Dec 8	Yr ago	*High	*Low
Ordinary Share	2656.4	2649.0	2642.6	2644.1	2630.1	2299.7	2676.1	2238.3
Ord. div. yield	4.05	4.05	4.06	4.06	4.08	4.55	4.73	4.02
P/E ratio net	15.68	15.86	15.84	15.86	15.76	17.47	21.33	15.35
P/E ratio nil	15.71	15.69	15.67	15.68	15.59	17.03	22.21	15.17

*For 1995. Ordinary Share index since compilation: high 2713.6 3/09/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2659.0	2658.7	2661.5	2656.1	2654.5	2661.1	2662.4	2663.3	2661.5	2666.0	2654.1

	Dec 14	Dec 13	Dec 12	Dec 11	Dec 8	Yr ago
SEAQ bargains	27,257	27,454	27,551	31,018	28,040	19,370
Equity turnover (£m)†	-	1858.5	2036.9	2210.7	1554.6	1184.8
Equity bargains†	-	32,258	35,221	36,729	31,095	29,200
Shares traded (ml)†	-	637.2	811.0	868.0	575.2	518.5

†Excluding intra-market business and overseas turnover.

■ London market data

Rises and falls*		1995 Highs and lows		LIFFE Equity options	
Total Rises	554	Total Highs	122	Total contracts	35,548
Total Falls	451	Total Lows	40	Calls	18,303
Same	1,852			Puts	17,245

Dec. 14 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3668.0	3675.0	+14.5	3695.0	3663.0	15989	24283
Mar	3692.0	3701.0	+16.0	3721.0	3690.0	15151	35124
Jun	-	3702.0	+14.5	-	-	0	1116

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3960.0	3980.0	+25.0	3980.0	3960.0	17	287
Mar	3995.0	3995.0	+25.0	3995.0	3995.0	17	3298

■ FT-SE 100 INDEX OPTION (LIFFE) (*3674) £10 per full index point

	3500 C	3500 P	3550 C	3550 P	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P
Dec	175	1	125	1	75	1	27½	2	1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	191	9	148	15½	109	26	73½	41	44½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	212	17	179	25½	132½	38	109	55½	71	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	228½	29½	188	41	150½	54	119	72½	98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†	262	71½			196	102			138½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 6,524 Puts 7,781

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3525 C	3525 P	3575 C	3575 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P
Dec	159	1	109	1	59	1	9½	9½	1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	169	11	127½	19	90	31½	55½	47	34½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	190½	20½	150½	30	115	43½	84	62	58½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	205½	33	167½	43½	132½	58	102½	77	77	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†	243½	73			178½	104½			123½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 2,976 Puts 5,388 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	1995 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
100	F.P.	24.1	99	96	Abtrust High Inc C	96½	-1½	-	-	-	-
-	F.P.	2.13	10	9	†Arion Props	9		-	-	-	-
308	F.P.	49.2	304	286	BZW Eqs Bermuda	303		-	-	-	-
-	F.P.	61.8	104	101	Benfield & Rea	103		-	-	-	-
290	F.P.	211.3	347	288	CMG	331		Rn4.8	1.2	1.8	17.1
-	F.P.	25.0	29	25	Cash Converters	25	-1	MN2.6	5.1	13.0	18.7
-	F.P.	12.2	510	500	†Com de Part Fin	510		-	-	-	-
150	F.P.	72.1	160	149½	Cortworth	151		RN5.8	2.1	4.8	12.4
-	F.P.	54.1	110	108	Cox Insurance	110		-	-	-	-
-	F.P.	13.2	448	448	East Surrey NV	448		-	-	-	-
100	F.P.	51.0	102	98	Finsbury Tech	102		-	-	-	-
-	F.P.	14.6	146	125	Gardner (L)	130		-	-	-	-
-	F.P.	14.7	98	98	Geared Income C	98		-	-	-	-
200	F.P.	21.9	203	203	Gearhouse	203		Lv4.4	3.5	2.7	13.3
-	F.P.	3.48	116	83	Jasmin	85		-	-	-	-
-	F.P.	2.00	80	70	London Town	80		-	-	-	-
-	F.P.	21.2	99	93½	Martin Currie Jpn	98	+½	-	-	-	-
-	F.P.	2.38	35	29	Do Warrants	35	+2	-	-	-	-
204	F.P.	3,458.1	214½	204½	National Grid	204½	-5	Wv11.23	2.3	6.9	9.2
200	F.P.	79.4	260	200	Peptide Th'peutics	234	+1	-	-	-	-
-	F.P.	87.4	355	345	†Pet City	360	-5	-	-	-	-
-	F.P.	1.07	105	100	†Revelation P'dity	100		-	-	-	-
-	F.P.	185.8	45	38	†Trocadero	44	+3	-	-	-	-
-	F.P.	164.8	280	263	Vero Group	272	+2	RWN5.1	1.8	2.3	30.0
-	F.P.	45.7	64	55	Wilmington	64	+2	v-	-	-	30.0

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Dec 13	% chg on day	Dec 12	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (34)	1916.82	-2.2	1959.84	1897.01	1.87	-	2563.86	1837.91
■ Regional Indices								
Africa (16)	2506.24	-2.6	2574.19	2941.54	4.05	25.12	3191.21	2272.74
Australasia (6)	2406.19	-0.4	2416.45	2212.33	2.06	37.12	2607.57	1788.20
North America (12)	1682.28	-2.3	1722.55	1498.92	0.80	47.74	1831.00	1348.18

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FT - SE Actuaries Share Indices — The UK Series

	Dec 14	Day's chge%	Dec 13	Dec 12	Dec 11	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3671.6	+0.3	3662.4	3654.9	3652.1	2973.4	3.93	2.09	15.19	139.31	1462.04
FT-SE Mid 250	3961.7	+0.5	3942.3	3933.5	3936.9	3413.9	3.57	1.82	19.22	152.67	1555.44
FT-SE Mid 250 ex Inv Trusts	3972.0	+0.5	3950.9	3941.1	3944.9	3412.0	3.72	1.88	17.87	161.34	1560.64
FT-SE-A 350	1817.9	+0.3	1812.4	1808.6	1807.9	1492.8	3.85	2.04	15.91	69.17	1480.99
FT-SE-A 350 Higher Yield	1816.1	+0.4	1809.1	1803.0	1802.8	1514.2	4.87	1.84	13.93	85.95	1227.96
FT-SE-A 350 Lower Yield	1824.4	+0.2	1820.4	1819.1	1817.8	1471.7	2.79	2.40	18.66	51.08	1240.60
FT-SE SmallCap	1938.37	+0.1	1936.68	1937.60	1937.97	1730.81	3.34	1.70	22.06	60.57	1565.85
FT-SE SmallCap ex Inv Trusts	1913.39	+0.1	1911.64	1912.53	1913.57	1699.79	3.58	1.77	19.72	63.65	1554.07
FT-SE-A ALL-SHARE	1790.73	+0.3	1785.58	1782.18	1781.53	1479.60	3.82	2.02	16.23	67.23	1482.57

■ FT-SE Actuaries All-Share

	Dec 14	Day's chge%	Dec 13	Dec 12	Dec 11	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	3265.98	+1.3	3224.22	3209.16	3177.04	2613.47	3.59	2.02	17.27	118.72	1374.35
12 Extractive Industries(7)	4249.85	+0.4	4231.66	4227.82	4217.38	3676.76	3.48	2.51	14.31	144.17	1218.64
15 Oil, Integrated(3)	3320.45	+1.5	3272.45	3256.24	3222.74	2590.38	3.71	1.96	17.25	123.19	1432.38
16 Oil Exploration & Prod(13)	2049.98	+1.4	2022.67	2001.85	1952.89	1803.45	2.45	1.49	34.13	49.88	1216.80
20 GEN INDUSTRIALS(277)	1930.58	+0.4	1922.76	1915.55	1915.21	1782.78	4.30	1.89	15.38	80.27	1035.54
21 Building & Construction(38)	1018.93	+0.7	1011.39	1010.37	1006.80	948.46	3.96	2.02	15.68	38.89	838.32
22 Building Matls & Merchs(31)	1778.52	+1.1	1759.25	1743.28	1743.56	1703.64	4.15	2.04	14.76	73.55	882.65
23 Chemicals(23)	2312.41	-0.1	2313.58	2309.70	2305.76	2223.44	4.25	1.87	15.77	94.71	1076.36
24 Diversified Industrials(20)	1750.50	+0.2	1746.26	1731.42	1727.88	1690.20	5.67	1.56	14.15	97.90	957.04
25 Electronic & Elect Equip(36)	2141.91	+1.4	2113.04	2098.61	2089.20	1788.21	3.51	2.00	17.83	62.44	1091.97
26 Engineering(68)	2139.79	+0.1	2138.71	2147.30	2147.63	1771.80	3.53	2.27	15.59	73.78	1280.54
27 Engineering, Vehicles(13)	2472.77	+0.3	2464.86	2484.78	2505.23	2164.51	3.80	1.16	28.27	93.56	1259.82
28 Paper, Pckg & Printing(27)	2464.86	-0.3	2473.06	2445.10	2447.74	2680.64	4.08	2.49	12.27	96.80	1009.73
29 Textiles & Apparel(21)	1428.76	+0.3	1423.85	1425.33	1429.04	1493.22	5.01	1.84	13.59	71.38	856.61
30 CONSUMER GOODS(89)	3603.48	+0.1	3601.08	3593.05	3584.25	2711.22	3.78	1.80	18.36	130.35	1305.79
31 Breweries(17)	2819.73	+0.5	2806.89	2807.56	2792.61	2156.91	3.69	1.92	17.86	69.57	1322.34
32 Spirits, Wines & Ciders(9)	2849.62	-0.7	2869.39	2839.74	2817.43	2635.62	4.26	1.76	16.62	126.07	1008.50
33 Food Producers(24)	2566.73	+0.2	2560.59	2548.45	2554.64	2241.97	4.02	1.81	17.17	99.04	1137.36
34 Household Goods(11)	2613.17	+1.8	2568.04	2566.53	2558.78	2333.63	3.67	2.13	16.02	90.95	981.15
36 Health Care(17)	1936.13	-0.2	1940.50	1940.66	1943.83	1541.01	2.73	1.79	25.63	49.84	1162.32
37 Pharmaceuticals(10)	5051.97	+0.4	5032.48	5061.92	5053.02	3148.90	3.26	1.70	22.50	162.31	1687.31
38 Tobacco(1)	4790.28	-1.0	4836.87	4743.69	4726.75	3603.11	5.01	1.94	12.85	229.23	1158.91
40 SERVICES(226)	2208.87	+0.1	2206.39	2207.49	2209.38	1826.86	3.06	2.10	19.57	67.22	1131.62
41 Distributors(30)	2553.28	+1.1	2526.47	2525.29	2517.29	2467.12	3.94	1.77	17.94	100.38	928.84
42 Leisure & Hotels(30)	2611.38	-0.1	2613.07	2619.32	2624.37	2058.75	3.11	1.89	21.32	73.67	1337.62
43 Media(43)	3487.56	-0.1	3492.43	3507.59	3500.20	2740.49	2.05	2.38	25.62	79.91	1247.57
44 Retailers, Food(16)	1932.43	-0.7	1946.70	1945.76	1941.94	1663.12	3.78	2.38	13.93	72.35	1210.05
45 Retailers, General(43)	1924.44	+0.7	1910.21	1903.45	1912.95	1507.56	3.11	2.26	17.79	59.48	1084.77
48 Support Services(37)	1881.42	+0.7	1867.95	1862.42	1853.01	1440.50	2.47	2.51	20.16	42.58	1182.64
49 Transport(20)	2135.38	-0.3	2141.44	2149.71	2149.97	2160.06	4.09	1.30	23.42	86.39	876.91
51 Other Services & Business(7)	1076.36	-0.6	1082.50	1085.57	1096.85	1221.22	4.38	1.56	18.02	50.09	973.48
60 UTILITIES(36)	2405.01	+0.1	2403.35	2408.25	2424.34	2335.17	5.13	2.02	12.03	127.74	995.49
62 Electricity(14)	2744.84	-1.0	2771.26	2779.70	2788.69	2491.79	5.04	2.58	9.60	211.21	1263.47
64 Gas Distribution(2)	1523.64	+0.7	1512.89	1512.57	1518.97	2017.94	7.86	1.04	15.28	119.82	764.43
66 Telecommunications(7)	1943.88	+0.5	1934.58	1940.83	1980.53	1907.54	4.34	1.74	16.52	58.90	867.73
68 Water(13)	2119.09	+0.4	2109.83	2111.78	2117.43	1720.44	5.61	2.63	8.48	106.36	1137.89
69 NON-FINANCIALS(651)	1884.70	+0.3	1879.04	1876.31	1874.82	1597.63	3.88	1.95	16.51	72.40	1402.64
70 FINANCIALS(113)	2909.72	+0.3	2901.95	2889.64	2884.00	2098.43	3.85	2.43	13.38	107.91	1216.77
71 Banks, Retail(9)	4131.93	.....	4131.79	4115.52	4124.60	2791.97	3.54	2.80	12.61	140.81	1303.21
72 Banks, Merchant(6)	3630.91	+0.2	3622.79	3620.17	3606.99	2912.02	2.57	2.41	20.22	104.97	1138.26
73 Insurance(25)	1455.04	+1.4	1435.06	1423.77	1422.92	1162.37	5.06	2.68	9.22	73.13	1066.08
74 Life Assurance(6)	3452.71	+0.9	3430.88	3413.04	3421.14	2278.19	4.03	1.53	20.27	136.72	1410.71
77 Other Financial(22)	2412.20	-0.1	2415.25	2421.49	2420.65	1806.95	3.72	1.85	18.20	71.48	1348.78
79 Property(45)	1399.35	+0.1	1397.90	1388.71	1391.29	1323.49	4.48	1.34	20.80	62.43	848.36
80 INVESTMENT TRUSTS(133)	3011.32	+0.1	3007.59	3007.78	3006.70	2668.68	2.24	1.04	53.46	62.92	1040.53
89 FT-SE-A ALL-SHARE(897)	1790.73	+0.3	1785.58	1782.18	1781.53	1479.60	3.82	2.02	16.23	67.23	1482.57
FT-SE-A Fledgling	1105.87	+0.1	1104.93	1105.61	1106.13	-	2.88	1.26	34.52	32.14	1141.25
FT-SE-A Fledgling ex Inv Trusts	1108.26	+0.1	1107.34	1108.27	1107.10	-	3.03	1.31	31.45	31.18	1142.86

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3673.7	3676.6	3680.3	3671.6	3671.8	3682.7	3683.2	3683.6	3674.5	3686.5	3670.4
FT-SE Mid 250	3948.7	3953.3	3957.3	3959.1	3960.8	3961.8	3962.6	3965.0	3961.8	3965.5	3948.7
FT-SE-A 350	1817.4	1819.0	1820.8	1817.6	1817.9	1822.2	1822.5	1822.9	1819.0	1823.9	1816.3

Time of FT-SE 100 Day's high: 2.33pm Day's low: 9.43am. FT-SE 100 1995 High: 3680.4 (1/12) Low: 2954.2 (23/1).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1013.8	1014.9	1013.2	1011.1	1011.0	1011.3	1011.8	1011.6	1015.7	1015.7	1009.2	+6.5
Pharmaceuticls	4959.1	4965.4	4974.2	4974.0	4971.2	4981.3	4981.3	5001.4	4994.5	4991.4	4971.83	+19.8
Water	2114.2	2113.2	2110.6	2112.2	2108.8	2109.3	2111.2	2113.9	2114.7	2114.7	2105.5	+9.2
Banks, Retail	4200.3	4214.1	4222.2	4206.8	4211.4	4220.0	4215.7	4205.8	4181.0	4184.7	4184.5	+0.2

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL.
The FT "500" has been renamed FT-SE-A Non-Financials index. The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland and the FT-SE Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules.

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TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 index constituent. All trades are rounded.

هكذا من الاصل

WORLD STOCK MARKETS

EUROPE

PACIFIC

NORTH AMERICA

AFRICA

INDICES

	Dec 14	Dec 13	Dec 12	1995 High		1995 Low	
Argentina							
General(29/12/77)	(c)	15178.27	15052.98	18531.16	2/1	9831.89	9/3
Australia							
All Ordinaries(1/1/80)	2222.7	2225.6	2215.1	2235.80	13/12	1823.30	8/2
All Mining(1/1/80)	1015.9	1020.3	1021.5	1039.80	7/8	798.39	8/2
Austria							
Credit Aktien(30/12/84)	344.18	342.92	342.20	395.42	2/1	328.59	27/10
Traded Index(2/1/91)	959.31	957.52	960.52	1088.31	2/1	892.15	23/10
Belgium							
BEL20(1/1/91)	1557.14	1557.44	1550.86	1557.44	13/12	1271.83	9/3
Brazil							
Bovespa(29/12/83)	(c)	43698.0	43658.0	48812.88	19/9	21382.86	9/3
Canada							
Metals Minls†(1975)	(c)	5719.07	5089.87	5383.37	23/11	3968.63	1/3
Composite†(1975)	(c)	4698.39	4708.67	4746.19	6/12	3991.41	30/1
Portfolio$$(4/1/83)	(c)	2322.77	2323.93	2342.77	11/12	1983.39	30/1
Chile							
IGPA Gen(31/12/80)	(c)	5684.36	5880.20	[illegible]	11/7	4578.98	9/3
Denmark							
Copenhagen SE(3/1/83)	368.30	366.48	365.18	376.44	25/8	330.91	29/3
Finland							
HEX General(28/12/90)	1783.92	1837.78	1876.93	2283.22	14/9	1585.39	29/3
France							
SBF 250(31/12/90)	1229.28	1208.26	1218.69	1322.38	12/5	1164.41	13/3
CAC 40(31/12/87)	1874.98	1833.76	1848.94	2017.27	12/5	1721.14	23/10
Germany							
FAZ Aktien(31/12/58)	819.62	815.65	818.03	846.76	19/9	788.87	30/3
Commerzbank(1/12/53)	2375.4	2364.7	2370.4	2427.80	19/9	2018.30	30/3
DAX(30/12/87)	2285.85	2277.80	2288.77	2347.01	15/9	1910.96	28/3
Greece							
Athens SE(31/12/80)	899.22	897.16	896.28	[illegible]	4/8	787.15	16/3
Hong Kong							
Hang Seng(31/7/64)	9912.84	9920.86	9927.79	10082.98	17/10	6967.93	23/1
India							
BSE Sens.(1979)	3053.42	3068.16	3033.83	3932.08	2/1	2822.18	29/11
Indonesia							
Jakarta Comp.(10/8/82)	489.86	491.82	496.96	[illegible]	11/6	414.21	19/4
Ireland							
ISEQ Overall(4/1/88)	2240.78	2238.43	2243.17	2286.71	7/12	1813.58	23/1
Italy							
Banca Comm Ital(1972)	572.47	570.58	570.34	660.54	10/2	547.78	5/12
MIB General(2/1/95)	904.0	901.0	900.0	1078.00	10/2	889.00	5/12
Japan							
Nikkei 225(16/5/49)	19489.30	19283.48	19312.77	19684.04	4/1	14485.41	3/7
Nikkei 300(1/10/82)	288.10	287.30	287.58	288.22	7/12	222.26	13/6
Japan							
Topix(4/1/68)	1530.07	1527.86	1529.41	1553.48	4/1	1193.16	13/6
2nd Section(4/1/68)	2014.03	2008.87	2008.13	2130.88	4/1	1441.90	13/6
Malaysia							
KLSE Comp.(4/4/86)	998.26	984.28	979.25	1085.84	5/6	840.87	24/1
Mexico							
IPC(Nov 1978)	(c)	2586.11	(c)	2724.50	29/11	1447.82	27/2
Netherland							
CBS TtlRtnGen(End 83)	526.5	525.0	524.6	528.00	13/12	422.80	23/3
CBS All Shr(End 83)	318.8	317.9	317.6	[illegible]	13/12	285.28	23/3
New Zealand							
Cap. 40(1/7/86)	2121.78	2149.60	2135.72	2286.82	20/10	1901.43	5/1
Norway							
Oslo SE(Ind)(2/1/83)	1265.65	1258.36	1260.04	1282.36	18/10	1036.09	10/3
Philippines							
Manila Comp(2/1/85)	2494.65	2480.50	2480.05	2888.12	10/7	2186.48	20/11
Portugal							
BTA(1979)	2492.4	2477.7	2482.4	2911.80	9/1	2412.89	22/11
Singapore							
SES All-S'pore(2/4/75)	544.19	533.47	528.86	595.88	5/1	472.98	23/1
South Africa							
JSE Gold(28/9/78)	1319.3♥	1350.6	1369.6	2923.00	2/1	1258.20	30/10
JSE Indl(28/9/78)	7831.8♥	7837.7	7944.8	7944.80	12/12	6222.09	31/1
South Korea							
KoreaCompEx**(4/1/80)	908.68	925.46	943.22	1027.37	2/1	847.09	27/5
Spain							
Madrid SE(30/12/85)	314.05	312.80	314.28	318.98	13/9	284.86	29/3
Sweden							
Affarsvarlden Gen(1/2/37)	1703.8	1712.8	1718.9	1872.10	19/9	1430.80	29/3
Switzerland							
Swiss Bk Ind(31/12/58)	1511.11	1507.36	1507.51	[illegible]	4/12	1174.83	13/3
SBC General(1/4/87)	1124.54	1123.19†	1124.28	1134.28	12/12	978.88	13/3
Taiwan							
Weighted Pr.**(30/6/66)	5064.99	5018.01	4959.40	7051.49	5/1	4503.37	14/8
Thailand							
Bangkok SET(30/4/75)	1235.08	1247.48	1255.38	1472.84	10/7	1135.89	16/3
Turkey							
Istanbul Comp(Jan 1986)	39626.4	38748.0	39753.4	[illegible]	21/4	24644.31	23/1
WORLD							
MS Capital Intl(1/1/70)	731.7*	727.9	726.9	728.30	7/12	598.21	23/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1474.46	1470.58	1476.58	1480.69	15/9	1222.41	13/3
Euro Top-100(26/6/90)	1332.94	1328.98	1328.61	1338.81	12/12	1117.34	9/3
JCapitalOpps(31/12/86)	(c)	335.03	335.11	349.47	14/7	282.87	23/1
ING Barings Emrg(7/1/92)	(c)	144.73	144.20	158.07	2/1	117.15	10/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
Dec	1860.0	1883.0	+43.0	1899.0	1843.0	26,884	95,945
Jan	1856.5	1891.0	+42.5	1900.0	1853.0	1,109	8,369
■ DAX							
Dec	2288.0	2285.0	+0.5	2295.0	2260.0	29,878	83,586
Mar	2313.0	2308.0		2318.0	2304.0	22,605	43,999
■ OMX							
Dec	1345.00	1331.00	-15.00	1360.00	1331.00	5,267	11,130
Jan	1363.50	1352.00	-6.00	1369.50	1352.00	1,759	4,657
■ SOFFEX							
Dec	3283.0	3274.5	+1.5	3287.0	3274.0	5,838	7,899
Jan	3292.0	3283.0	-3.0	3295.0	3282.5	2,748	9,845

Sat Dec 9: Taiwan Weighted Price 4884.82 ; Korea Comp Ex 962.87. Base values of all Indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen, MIB Gen, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp/Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. $$ Montreal. † Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Dec 14 - 2288.21 +2.93.

US INDICES

Dow Jones	Dec 13	Dec 12	Dec 11	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	5216.47	5174.92	5184.32	5216.47 (13/12)	3832.08 (30/1)	5216.47 (13/12/95)	41.22 (2/7/32)
Home Bonds	105.15	105.34	105.34	105.34 (11/12)	93.63 (2/1)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2084.54	2070.78	2080.78	2092.11 (5/12)	1473.19 (3/1)	2092.11 (5/12/95)	12.32 (8/7/32)
Utilities	220.30	218.74	218.80	221.13 (8/12)	183.08 (3/1)	256.48 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5248.10 (5228.23) Low 5144.22 (5132.29) (Theoretical♠)
Day's high 5219.36 (5187.93) Low 5166.61 (5169.14) (Actual♠)

Standard and Poors	Dec 13	Dec 12	Dec 11	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite‡	621.69	618.78	619.52	621.69 (13/12)	459.11 (3/1)	621.69 (13/12/95)	4.40 (1/6/32)
Industrials♥	731.65	728.20	728.99	731.65 (13/12)	546.28 (3/1)	731.65 (13/12/95)	3.62 (21/6/32)
Financial	62.16	62.21	62.45	63.66 (6/12)	41.64 (3/1)	63.66 (6/12/95)	8.64 (1/10/74)
NYSE Comp.	331.17	329.80	330.17	331.17 (13/12)	250.73 (3/1)	331.17 (13/12/95)	4.46 (25/4/42)
Amex Mkt Val	538.86	535.54	535.65	553.58 (12/9)	433.12 (3/1)	553.58 (12/9/95)	29.31 (9/12/72)
NASDAQ Comp	1058.54	1052.07	1061.50	1069.79 (4/12)	743.58 (3/1)	1069.79 (4/12/95)	54.87 (31/10/72)

■ RATIOS

	Dec 8	Dec 1	Nov 24	Year ago
Dow Jones Ind. Div. Yield	2.27	2.30	2.32	2.88
	Dec 13	Dec 6	Nov 29	Year ago
S & P Ind. Div. yield	1.95	1.95	2.00	2.48
S & P Ind. P/E ratio	19.06	18.98	18.64	18.29

■ NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
LSI Logic	10,249,100	36⅞	+2⅜
Micron Tech	5,788,000	53¾	+1¼
Hanson	4,842,500	15⅝	+⅛
James River	4,782,700	31⅛	+2⅜
Motorola	4,673,300	58⅞	-1½
Amer T & T	4,368,300	68¼	+2
Hewlett-Packd	4,299,900	80¾	-2¼
Nokia A	3,873,300	46	4¼
Kimberley-Clk	3,734,100	79¾	+1½
SGS-Thomson	3,420,800	32¾	-⅛

■ TRADING ACTIVITY

● Volume (millions)	Dec 13	Dec 12	Dec 11
New York SE	417.223	361.448	342.055
Amex	19.270	18.688	16.637
NASDAQ	497.915	474.454	434.857
NYSE			
Issues Traded	3,092	3,095	3,093
Rises	1,428	978	1,197
Falls	983	1,350	1,128
Unchanged	701	767	768
New Highs	185	130	167
New Lows	26	25	20

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Dec	621.90	622.80	+1.45	623.20	621.70	32,618	82,335
Mar	627.30	628.10	+1.55	629.40	627.20	82,845	182,525
■ Nikkei 225							
Mar	19420.0	19590.0	+260.0	19620.0	19340.0	26,207	130,898
Jun	19560.0	19560.0	+180.0	19580.0	19560.0	1	17,571

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Thursday, December 14, 1995

	Stocks Traded	Closing Prices	Change on day
Nippon Koshuha Stl	15.6m	850	+77
Toho Zinc Co	15.2m	835	+27
Nippon Steel Corp	10.3m	351	-1
Toshiba Corp	9.3m	783	-5
Shinagawa Fuel	9.0m	1200	+120
Nippon Carbon Co	8.5m	523	+57
NKK Corp	6.5m	275	+2
Hitachi	6.0m	1010	-10
Mitsubishi Hvy	4.8m	817	-2
Ito Yokado	4.2m	6020	-20

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (Daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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4 pm close December 14

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg. Prev. Close
20 5/8	12 1/8	AAR	0.48	2.3	25	551	u20 7/8	20 5/8	20 7/8	+1/4
40 3/4	35	AMP	0.92	2.3	20	9111	40 3/4	39 1/4	39 3/8	-1
80 1/4	53 3/8	AMR			17	7087	77 3/8	76	76 1/2	-7/8
47 7/8	36 5/8	ASA	1.71	4.5	25	584	38 1/2	37 3/4	37 7/8	-1/2
44 3/4	30 3/4	AbbotL	0.84	2.0	20	21413	42 3/8	41 7/8	41 3/4	
16 7/8	12	AbitibiPr	0.40	2.7	7	2636	14 7/8	14 3/8	14 7/8	+1/2
29 1/2	21	ABM Ind	0.60	2.2	15	20	27 3/4	27 5/8	27 3/4	
17 1/2	13 1/8	Acptacsin			10	175	15 3/8	15	15 1/4	
40	21 7/8	ACE Ltd	0.56	1.5	9	1061	39	38 1/2	38 1/2	-1/2
9 7/8	8 1/8	ACM Gvt In x	0.90	9.5	8	209	9 1/2	9 3/8	9 1/2	
7 3/4	6 1/2	ACM GvOpp x	0.66	9.1		117	7 3/8	7 1/4	7 1/4	
7 1/2	5 3/4	ACM Gvt Sp x	0.75	11.1		685	6 7/8	6 3/4	6 3/4	
8 3/4	7 1/4	ACM Gvt Se x	0.90	10.7		286	8 1/2	8 3/8	8 3/8	
9 1/2	7 5/8	ACM Man x	0.90	10.1		69	8 7/8	8 3/4	8 7/8	+1/8
29 1/4	10 1/4	AcmeClv	0.48	2.3	38	364	21 1/4	20 1/4	20 1/2	-1/2
38 3/4	7 3/8	Acme Elect			70	284	8 3/4	8 1/4	8 1/2	+1/4
34 1/2	23 3/4	Acordia	0.72	2.6	15	41	28 1/4	28 1/8	28 1/4	+1/4
16 3/4	10 1/8	Acuson			36	458	12 3/8	11 1/2	11 5/8	-1/2
18 5/8	15 5/8	Adams Expr	0.48	2.6	0	123	18 1/2	18 3/8	18 3/8	
30 7/8	2 7/8	AdvMic			6	6513	18 3/4	18 1/4	18 5/8	+1/2
9 3/4	5	Advest Grp	0.16	1.8	12	33	9 1/8	9	9	-1/8
27 1/2	16 1/2	Advo Inc	0.10	0.4	19	1694	25 5/8	25 1/4	25 1/2	
42 5/8	34.80	Aegon	1.28	3.1	15	232	41 5/8	41 1/4	41 1/4	-1/4

Continued on next page

4 pm close December 14

NYSE COMPOSITE PRICES

1995 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng. Prev. Close
Continued from previous page										
37⅞	30½	SFePPpe	3.00	8.1	11	50	37	36⅞	37	+⅛
33¾	24¼	SaraLee	0.68	2.0	20	6664	33½	32⅞	33½	+¼
57¼	39⅝	SBC Cm	1.65	2.9	19	5498	u57½	56⅞	57⅛	
27	20½	Scana Corp	1.44	5.5	16	841	26¼	26⅛	26⅛	
18	14½	Scecrp	1.00	6.1	10	4967	16¾	16⅜	16½	+⅛
11⅞	6	SchwkA	0.28	4.2	15	106	6¼	6	6⅛	+⅛
50⅛	37¼	SchergP			28	230	45⅛	44½	44⅝	+⅛
60⅝	35½	SchrPl	1.18	2.0	21	11771	60½	57⅞	57⅞	-⅝
68⅞	50⅛	Schlmb x	1.50	2.2	25	5456	69¾	68	68⅝	-1
29	11¼	Schwab(C)	0.16	0.8	20	11397	20¾	18¾	18⅞	-1⅝
23⅝	20⅝	Schwitaud				3001	22¾	22⅜	22⅝	
24⅞	11⅞	SciAtl	0.05	0.4	20	4856	15½	14¾	14⅞	-¾
20	15⅛	Scotsman	0.10	0.6	10	66	16¾	16½	16¾	+⅛
40⅝	26⅞	Scripps	0.52	1.3	27	643	40⅛	39⅝	40	+¼
21½	13⅝	ScudderNeF	0.02	0.1		464	15¾	15	15¼	+⅛
11⅜	8⅝	ScuddrNEuF x	0.16	1.4		178	11¼	11⅛	11⅛	-⅛
20	13⅞	SeaCnB	0.70	4.1	1	8	17⅛	17⅛	17⅛	-⅛
16¾	14⅝	SeaC1.4625	1.46	9.6		7	15⅜	15¼	15¼	
54¾	25⅝	S'gate			10	18136	52	48¾	48⅝	-2⅜
39½	25⅝	Seagrm x	0.60	1.7	25	2976	36⅝	36⅛	36¼	-¼
22½	15¾	Seagull En			68	2406	19⅝	19¼	19⅝	+⅛
30¾	18	Sealed Air			24	664	28⅞	28¼	28¼	-⅝
40⅝	30⅜	SearsR	0.92	2.3	10	9826	u40¾	39½	40½	+¾
20½	16⅝	SecCapSBI	1.15	5.8	23	391	20	19⅝	19¾	-¼
12⅞	10⅜	Seligm Sel x	0.84	6.8		160	12½	12⅜	12⅜	-⅛
[illegible]										

-T-

-U-

-V-

-W-

-X-Y-Z-

Prices data supplied by Telekurs

AMEX COMPOSITE PRICES

4 pm close December 14

[illegible]

NASDAQ NATIONAL MARKET

4 pm close December 14

-A- -B- -C- -D- -E- -F- -G- -H- -I- -J- -K- -L- -M- -N- -O- -P-Q- -R- -S- -T- -U- -V- -W- -X-Y-Z-

[illegible]

AMERICA

Technology shares bear brunt of fall

Wall Street

Technology shares tumbled early yesterday on fears of weakening demand, leading to a 1.2 per cent drop in the Nasdaq composite and more modest declines in broader indices, *writes Lisa Bransten in New York.*

At 1 pm, the Nasdaq was 13.15 lower at 1,043.39 and the Pacific Stock Exchange technology index had fallen 2.4 per cent.

The Dow Jones Industrial Average slipped 9.75 to 5,206.72. The Standard & Poor's 500 shed 2.47 to 619.22 and the American Stock Exchange composite was off 0.78 at 538.08. NYSE volume was 276m shares.

The drop in technology shares was sparked by a profits warning from Nokia, the Finnish mobile phone and consumer electronics group, according to Mr Anthony Conroy, chief equity trader at Bankers Trust.

Although Nokia said that it was experiencing better than expected demand for cellular phones in the US, Mr Conroy said that the news spooked investors, worried about a slowdown in demand for semi-conductors and other high-technology products.

American Depositary Receipts of Nokia plummeted $12⅞ or 27 per cent to $33⅝ and ADRs of Ericsson were off $1⅝ or 7 per cent to $19⅝. Motorola, Nokia's closest US competitor, dropped $2⅞ to $57⅞.

Losses were widespread in the technology sector. Microsoft, the largest company on the Nasdaq, shed $1⅞ at $89⅞, Intel was $2 lower at $60⅝ and Cisco Systems dropped $4 at $73⅛.

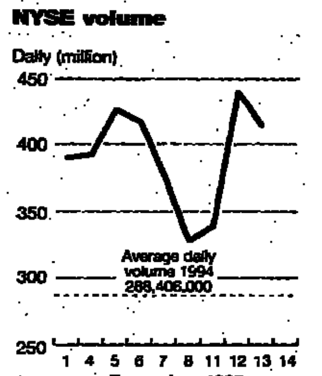
IBM, which is the only pure technology company in the Dow, fell $⅝ at $93⅞. Also pulling down the Dow were declines in the three member oil companies that rallied in recent sessions and a loss for Boeing, which settled a 69-day strike by its machinists union late on Wednesday.

Boeing gave up $1⅞ at $74⅝, Chevron fell $⅝ at $79⅛, Exxon was off $1⅛ at $84⅛ and Texaco lost $⅛ at $78⅝.

Economic figures on consumer prices, industrial production and business inventories suggested the economy was slowing and any threat of inflationary pressures was receding. That helped boost shares in consumer goods companies thought to be safe havens in a slowing economy.

Thus the Dow got some support from Merck, up $1⅞ at $66⅛ and Philip Morris, $1⅛ stronger at $93. Federal Express fell $4⅝ or 6 per cent to $77 after announcing weaker than expected results for the fiscal second quarter.

NYSE volume



Canada

Toronto was spurred higher in early trade by merger activity in the natural resources sector, before renewed weakness emerged in late morning trade. By noon, the TSE-300 ite index was down 3.15 at 4,695.24 in volume of 37.2m shares.

Brazil tumbles 5%

São Paulo had tumbled by 5 per cent by early afternoon. The Bovespa index was down 2,236 at 41,461. Technical factors were partly to blame ahead of forthcoming options expiry.

BUENOS AIRES was discouraged by the failure of congress to act on key economic legislation. By mid-morning the Merval index had shed 3.5 to 474.65 in turnover of 59.8m pesos.

One analyst said that investors are worried about whether congress would pass the 1996 budget before the end of the year.

The lower house has already approved the budget, adding on $500m in extra spending, but it still has not been debated by the senate.

MEXICO CITY was slightly weaker by late morning as investors looked to the peso for direction.

By midsession the IPC index of leading shares was 21.56 softer at 2,564.55.

● Bear Stearns said yesterday that it would be maintaining an underweight position in the Mexican equity market during 1996, as it expected weakness in the peso to trim gains that could come from a rally in shares.

Futures feature in S Africa

South African equities saw industrials marginally softer in futures-related trade and golds weaker.

Dealers said that the industrials sector fluctuated during the session and was pulled down by arbitrage in the futures market. There was also some window-dressing by institutions ahead of today's expiry of options.

Gold shares tumbled shortly after opening on a lower price for bullion and as bearish sentiment crept into the market, which left the sector index down 31.9 at 1,318.7.

Gold index futures were sharply lower on the weaker bullion price, but dealers said that it could recover mildly in the near term.

The overall index slipped 29.4 to 6,232.7 and industrials shed 5.9 to 7,931.8.

Among individual features, De Beers receded R2.25 to R112.50, while Anglos lost R3.50 to R231.50. Barlows made 75 cents to R50.50.

SAB was unchanged at R132, Liberty Life climbed 50 cents to R113. Dries shed 60 cents to R41.75 and Vaal Reefs was clipped back R9 to R239.50.

EUROPE

Nokia plunges 7%, Buba move provides comfort

There was general satisfaction among continental European markets at the Bundesbank's decision to trim ½ percentage point off the discount and Lombard rates.

The German announcement was preceded by a similar cut in the Swiss discount rate, and followed by moves from the Belgian, Dutch, Austrian and Danish central banks.

However, the French, which had made a symbolic rate cut of 10 basis points last week, resisted. Mr Gary Dugan of J.P. Morgan said he believed that the French could follow suit next week, but only if the government and unions resolved the current industrial dispute.

Mr Michael Hughes at BZW forecast that another 50 basis points could be cut from German interest rates to offset the fiscal squeeze imposed by Maastricht and to enhance the competitive edge of European business.

The other important news of the day was a profits warning from Nokia, which affected high-tech stocks elsewhere.

HELSINKI tumbled to a seven-month low after Nokia forecast a reduction in its third-quarter pre-tax profits against the same 1994 period.

The A shares slid FM15 or 7 per cent to FM200 on the announcement. The group added that the revision in estimates was due to the slower than expected development in its mobile telephone division as well as disappointment in the performance of consumer electronics.

The Hex index fell 56.05 or 3 per cent to 1,783.60 in turnover of FM514m.

STOCKHOLM was unnerved by the news from Nokia, and Ericsson dropped SKr10.5 to SKr132.5 as Affärsvärlden general index fell 9.0 to 1,703.8 in turnover of SKr3.3bn.

However, the drugs sector index went in the opposite direction, rising 1 per cent. Astra, in particular, was supported by news that the US Food and Drug Administration had recommended approval of an anti-ulcer product. The company's A shares put on SKr3.50 or 1.4 per cent at SKr250 and the B rose SKr3 or 1.2 per cent to SKr247.

PARIS jumped 2.2 per cent on rising expectations of an end to the industrial dispute and hopes for lower interest rates. The CAC-40 index advanced 41.32 to 1,874.98.

The financials led the rally, with UAP up FFr7.50 or 6 per cent to FFr135.50.

But on the downside, Moulinex continued to attract sellers, losing another 4.5 per cent to FFr67.50.

GAN, the state-controlled insurer, added FFr8.20 or 4.8 per cent at FFr180.20 on speculation that it might sell its controlling interest in CIC, the bank.

Elsewhere, Christian Dior surged FFr28.60 or 6 per cent to FFr518 as some institutions switched out of LVMH.

FRANKFURT was unmoved by the rate cut, which had not come as a great surprise to domestic investors. The Ibis index closed at 2,286.21, up 0.36 from the floor close, as turnover peaked at DM7bn. Siemens attracted attention with a gain of DM1.80 to DM771.10 after announcing a rise in year to September net profits.

ZURICH finished flat, as the market continued to consolidate the year's sharp gains and some profit-taking became evident after the cut in the Swiss discount rate. The SMI index turned back from a day's high of 3,289.3 to close 1.2 off at 3,272.

Elektrowatt jumped SFr17 to SFr397 on further assessment of its bid for Landis & Gyr.

Danzas, the freight forwarding group, gave up SFr35 to SFr1,380 on profit-taking, but was still 22 per cent up since the start of the month. The surge followed a private bank's upgrade of the stock, widely held in London and the US, in response to management changes which have brought in their wake an acceleration of cost cutting and a concentration on its core businesses.

MILAN saw short covering on the last day of the account. However, shares were pulled back from their best levels by renewed political uncertainty, after the centre-right block in parliament said that it would vote against confidence motions, expected today, on the 1996 budget. The Comit index picked up 1.89 to 572.47 *and the Mibtel index was* 47 higher at 9,121.

Montedison was flat, up L1 at L1,031, as San Paolo di Torino, L176 ahead at L8,953, said that it had no desire to take over the company.

Mediobanca was L24 higher at L10,379, as the merchant bank said that it would probably decide today whether to appeal against a regional court ruling that it must make a public offer to buy more shares in Ferruzzi, L18 ahead at L1,050.

Telecom Italia Mobile fell L48 to L2,653, as the European competition chief and Italy's telecommunications minister reached agreement for GSM mobile telephone operators in Italy, which is expected to favour the Olivetti controlled Omnitel over Tim.

OSLO's Total share index ended at its highest level for two months as foreign institutions moved in. The index made 2.22 to 731.90 in turnover of SKr717.6m. Kvaerner, which is in a hostile takeover bid for Amec, of the UK, climbed NKr5 to NKr212.

AMSTERDAM was lifted by Royal Dutch, which got a boost from the improvement in the oil price. The AEX index firmed 0.67 to 478.70.

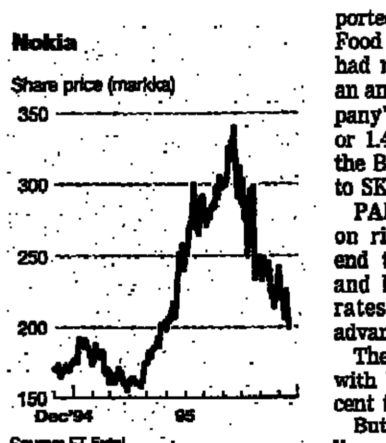
Royal Dutch made Fl 2.90 to Fl 222.60, while Philips caught turbulence from Nokia and slipped Fl 1.70 to Fl 59.30.

ISTANBUL rallied 2.3 per cent, after the 7.4 per cent decline of the previous three days, with the advance led by selective demand for index heavy state-controlled companies. The composite index rose 878.43 to 39,626.45.

ATHENS edged higher as activity picked up, but analysts noted that the market remained range bound in the absence of a successor for Prime Minister Andreas Papandreou. The general index moved up 2.06 to 899.22.

Written and edited by Michael Morgan and John Pitt

Nokia



Source: FT Extel

FT-SE Actuaries Share Indices

Dec 14 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1478.39	1480.90	1481.74	1481.71	1483.65	1482.59	1479.03	1474.46
FT-SE Eurotrack 200	1594.36	1596.58	1595.86	1593.28	1596.07	1597.06	1594.67	1591.13

THE EUROPEAN SERIES

	Dec 13	Dec 12	Dec 11	Dec 8	Dec 7
FT-SE Eurotrack 100	1470.58	1476.58	1468.23	1467.57	1462.47
FT-SE Eurotrack 200	1585.51	1588.45	1574.10	1566.07	1565.72

Base 1000 (26/10/90); High/day: 100 - 1485.66; 200 - 1603.07 Low/day: 100 - 1473.85 200 - 1590.79 † Partial

ASIA PACIFIC

Nikkei jumps to 11-month high as Seoul drops 2.2%

Tokyo

Hopes of a cut in the securities transaction tax boosted confidence, and the Nikkei average rose 1.1 per cent to an 11-month high, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 index gained 215.82 at 19,499.30, the highest level since January 11. The index moved between 19,287.94 and 19,548.47. Heavy arbitrage buying supported prices in spite of active profit-taking by domestic institutions.

Volume totalled 500m shares, against 469m. Corporate and foreign investors focused their buying on domestic demand related stocks which were regarded as laggards. Department stores, real estate and railway operators were also purchased on hopes of an easing of land taxes, while individual investors and dealers dabbled in speculative favourites.

The Topix index of all first section stocks moved ahead 11.21 to 1,539.07 and the Nikkei 300 added 1.80 at 289.10. Rises outnumbered falls by 719 to 346, with 143 issues unchanged. In London the ISE/Nikkei 50 index was up 2.94 at 1,337.41.

Traders said that the ruling coalition's decision to call for the easing of taxes on securities trading had taken them by surprise. "We had not expected such a proposal to come from the three parties," said Mr Yasuo Ueki at Nikko Securities.

The report prompted buying of companies expected to be beneficiaries of a cut in the property tax. Mitsubishi Estate rose Y30 to Y1,270 and Mitsui Fudosan firmed Y10 to Y1,280. Railway and bus shares were also higher, with Keisei Electric Railway up Y23 to Y850. Department stores advanced, with Mitsukoshi appreciating Y24 to Y957 and Marui up Y30 to Y1,980.

Speculative stocks were actively traded and accounted for four out of the top 10 most heavily dealt issues of the day. Nippon Koshuha Steel, leading the active list, climbed Y77 to Y650, while Toho Zinc jumped Y27 to Y835 and Sinanen Y130 to Y1,200.

High-technology stocks were easier on profit-taking: Hitachi lost Y10 at Y1,010 and Toshiba Y5 at Y783. Kyocera, however, which had led the recent downturn in semiconductor related stocks, rallied Y80 to Y7,720.

In Osaka, the OSE average rose 132.47 to 20,878.99 in volume of 302m shares. Nintendo, the video game maker, fell Y100 to Y7,800 on profit-taking.

Roundup

Worries about the political and economic outlook again left SEOUL sharply lower and the composite index closed 20.78 or 2.2 per cent down at 908.68 as declining issues overwhelmed advances by 557 to 68.

Brokers said that individual and foreign investors, clutching at any news that could indicate future market direction, also sold after a local newspaper reported that North Korea might invade South Korea.

The insurance sector was hard hit in the fall. The sector sub-index slid 3.8 per cent as Samsung Fire and Marine lost Won15,000 to Won380,000.

HONG KONG saw a late buying spree erase most of the market's early losses and the Hang Seng index finished just 8.04 off at 9,912.84, up from a day's low of 9,875.59. Turnover picked up to HK$3.3bn from Wednesday's HK$2.9bn.

Brokers said the latest economic data and rising US bond yields overnight outweighed another strong performance by the Dow Industrial Average.

SINGAPORE surged at the close on bargain hunting by foreign and local fund managers, ending a spell of lethargic trading and taking the key index above the 2,200-point level for the first time since June.

The Straits Times Industrial index rebounded to 2,204.66, up 32.61 and off the morning's low of 2,169.95, in brisk volume of 395.1m shares.

Volume leaders were mainly speculative shares and special situations. SPP added 45 cents at S$1.20 on persistent market talk of a change in shareholder interest or a takeover.

KUALA LUMPUR extended gains at the close on demand from local institutions and retail investors, and the composite index rose 11.98 to 996.26. Construction and Supplies House put on 32 cents at M$4.60, boosted by news that the company would soon submit a new proposal to Malaysia's Securities Commission for its takeover by Indonesia's Barito Group chairman Prajogo Pangestu.

WELLINGTON softened after the Reserve Bank called for a firming of monetary conditions. The NZSE-40 capital index lost 26.82 to 2,121.78.

Among the leading issues, Telecom dropped 11 cents to NZ$6.49 as the rate on 90-day bills was raised by 20 basis points. Fletcher Challenge weakened 10 cents to NZ$3.65.

Macraes Mining went against the trend, moving forward 5 cents to NZ$2.15 after announcing that it would refocus its business strategy on the Otago gold project.

TAIPEI moved upwards as late speculative buying emerged in low-priced issues. The weighted index gained 46.98 or 1 per cent at 5,064.99. Turnover was T$59bn.

Late buying focused on stocks in the cement and glass sectors, with the respective indices rising by 3.1 per cent and 2.9 per cent.

International Bills and Finance, recovering from a fraud scandal in August, surged by the daily 7 per cent limit to T$21.7 in hectic trade. China Steel rose T$1 to T$20.3.

SYDNEY finished a shade weaker, as domestic investors decided that it was time to book profits after the market had risen strongly over the last three sessions.

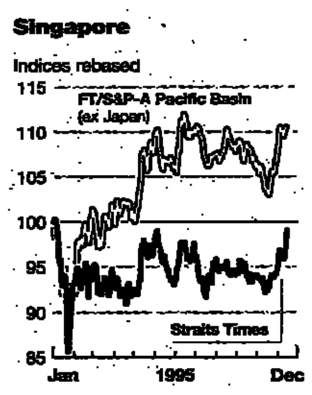
The All Ordinaries index slipped 2.9 to 2,222.7 after touching a new 1995 high of 2,237.4 early in the day.

The brokers said that investors took advantage of the market's early strength to take profits, particularly in blue chips.

MANILA regained its composure after a four-day losing streak as investors started to take positions in major stocks on hopes for good 1996 earnings prospects.

The composite index jumped 24.15 or 1 per cent to 2,484.65, with 1.7bn shares worth 2.5bn pesos changing hands.

Singapore



Source: FT Extel

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY DECEMBER 13 1995 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY DECEMBER 12 1995 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (81)	191.86	1.0	185.60	123.31	144.62	171.33	0.5	3.90	189.96	183.91	122.24	143.05	170.55	191.86	157.95	166.87
Austria (27)	171.58	-0.5	165.98	110.27	129.33	129.25	-0.4	1.61	172.38	166.88	110.93	129.81	129.72	199.28	167.48	175.81
Belgium (35)	204.55	0.0	197.88	131.46	154.19	150.48	0.2	3.48	204.48	197.96	131.59	153.99	150.19	204.55	164.78	164.78
Brazil (28)	141.01	0.0	136.41	90.62	106.29	250.91	0.1	1.68	140.98	136.49	90.72	106.17	250.73	180.75	86.06	178.94
Canada (101)	146.95	0.1	142.15	94.44	110.77	146.39	-0.1	2.55	146.84	142.16	94.49	110.58	146.51	150.83	121.81	125.90
Denmark (33)	285.08	0.6	275.78	183.22	214.89	217.94	0.7	1.50	283.50	274.46	182.44	213.49	216.49	295.99	236.61	236.74
Finland (25)	206.32	-2.6	199.59	132.60	155.52	188.27	-2.8	1.70	211.86	205.11	136.34	159.54	193.76	276.11	171.13	174.38
France (100)	171.33	-1.4	165.74	110.11	129.14	134.99	-0.9	3.25	173.72	168.19	111.80	130.82	136.17	191.17	157.79	163.48
Germany (59)	162.20	-0.5	156.91	104.25	122.26	122.26	-0.4	1.96	162.99	157.79	104.89	122.74	122.74	167.74	135.39	135.39
Hong Kong (55)	379.50	-0.1	367.13	243.91	286.07	378.87	-0.1	3.88	379.88	367.78	244.47	286.08	377.22	389.39	277.40	311.89
Ireland (16)	252.91	0.0	244.66	162.55	190.64	225.18	-0.1	3.41	252.86	244.80	162.72	190.42	225.49	260.87	195.34	195.67
Italy (59)	70.05	-0.8	67.77	45.02	52.81	83.67	-0.7	1.75	70.59	68.34	45.43	53.16	84.26	82.71	65.45	68.68
Japan (483)	152.23	0.0	147.27	97.84	114.75	97.84	-0.1	0.78	152.19	147.34	97.94	114.61	97.94	164.82	136.95	150.19
Malaysia (108)	480.81	0.5	465.13	309.02	362.43	471.18	0.6	1.75	478.61	463.36	308.00	360.43	468.32	561.96	398.16	444.01
Mexico (18)	950.38	-1.3	919.38	610.81	716.38	8084.15	-0.9	1.72	963.19	932.48	619.83	725.33	8156.24	1968.96	647.81	1968.96
Netherland (19)	266.14	0.0	257.46	171.05	200.61	197.23	0.1	3.31	266.24	257.78	171.33	200.50	196.97	266.70	209.19	209.19
New Zealand (14)	78.85	0.9	76.28	50.68	59.44	64.79	0.9	4.48	78.11	75.62	50.26	58.82	64.21	85.49	69.74	70.76
Norway (33)	227.35	-0.6	219.94	146.12	171.38	197.78	-0.2	2.12	228.64	221.35	147.14	172.18	198.27	243.79	198.73	198.73
Singapore (44)	391.88	0.3	379.10	251.86	295.40	255.80	0.4	1.59	390.81	378.36	251.50	294.31	254.84	414.26	313.94	343.85
South Africa (45)	389.73	-0.6	377.02	250.48	293.77	312.28	-0.6	3.82	392.04	379.55	252.29	295.23	314.29	392.04	281.06	319.10
Spain (38)	158.03	-0.5	152.87	101.56	119.12	147.62	-0.5	3.97	158.84	153.77	102.21	119.61	148.31	160.51	124.10	138.41
Sweden (47)	304.47	-0.4	294.54	195.69	229.51	302.61	-0.6	1.98	305.73	295.99	196.74	230.24	304.32	321.99	226.72	227.90
Switzerland (40)	228.29	-0.2	220.84	146.72	172.08	166.62	0.0	1.60	228.70	221.41	147.17	172.22	166.64	230.31	158.38	158.38
Thailand (46)	162.56	-0.8	157.26	104.48	122.54	158.65	-0.8	2.58	163.98	158.73	105.51	123.47	160.01	184.55	130.15	150.28
United Kingdom (206)	225.46	0.3	218.11	144.91	169.96	218.11	0.2	4.03	224.80	217.64	144.67	169.29	217.64	228.33	187.07	187.07
USA (639)	253.50	0.5	245.23	162.92	191.08	253.50	0.5	2.21	252.36	244.32	162.40	190.04	252.36	253.50	184.23	184.23
Americas (786)	230.76	0.4	223.24	148.31	173.95	194.03	0.4	2.21	229.79	222.47	147.87	173.04	193.21	230.76	172.16	172.16
Europe (737)	195.82	-0.2	189.43	125.85	147.61	168.22	-0.2	3.04	196.31	190.05	126.33	147.83	168.50	199.02	163.04	163.04
Nordic (138)	274.52	-0.6	265.57	176.43	206.93	235.40	-0.7	1.87	276.18	267.35	177.71	207.98	236.95	295.02	216.38	216.38
Pacific Basin (831)	162.51	0.1	157.22	104.45	122.50	108.25	0.0	1.21	162.37	157.20	104.49	122.28	108.29	171.87	145.93	157.11
Euro-Pacific (1568)	176.28	-0.1	170.53	113.30	132.88	130.99	-0.1	2.08	176.40	170.78	113.52	132.84	131.12	178.33	154.73	159.50
North America (740)	246.93	0.4	238.88	158.70	186.13	246.34	0.4	2.22	245.85	238.02	158.21	185.14	245.28	246.93	180.61	180.61
Europe Ex. UK (531)	175.58	-0.6	169.86	112.85	132.35	141.08	-0.4	2.47	176.57	170.94	113.62	132.96	141.62	179.46	146.47	146.47
Pacific Ex. Japan (348)	261.40	0.4	252.87	168.00	197.04	230.50	0.2	3.22	260.44	252.14	167.60	196.13	229.92	266.72	211.19	226.91
World Ex. US (1760)	177.33	-0.1	171.54	113.97	133.67	134.80	-0.1	2.10	177.47	171.82	114.21	133.65	134.95	178.73	155.42	161.41
World Ex. UK (2193)	198.32	0.1	191.85	127.46	149.49	164.11	0.1	1.96	198.08	191.75	127.46	149.15	163.92	198.37	163.46	166.10
World Ex. Japan (1916)	228.04	0.2	220.60	146.56	171.89	214.31	0.2	2.58	227.63	220.37	146.48	171.42	213.89	228.28	179.24	179.24
The World Index (2399)	200.73	0.1	194.18	129.01	151.31	168.92	0.1	2.15	200.44	194.05	128.98	150.94	168.71	200.75	165.92	167.96

CONSTITUENT CHANGE WITH EFFECT 15/12/95: Deletion: Veitscher Magnesit (Austria). Latest prices were unavailable for this edition.

RECRUITMENT

JOBS: Even the most successful business people may need assistance when they are made redundant

Determined to win again

What happens to top executives when they lose their jobs? At one time many of them might have expected to have bounced back very quickly working for a competitor or a business in a related industry. Not any more.

In the 1990s redundancy is biting as sharply at the top of companies as it has at the bottom. "Redundancy is no respecter of status or position," says Ian Bell, a consultant with the senior directors' unit at Sanders & Sidney, the outplacement specialist. It is Bell's job to repair the wounded reputations of people who may previously only have experienced success in their careers.

Indeed their very success, not to mention high salaries, may have been partly responsible for their departures. As Bell points out: "It is the turkeys with the longest necks that are the first to be plucked out at Christmas."

Demand for outplacement – the structured approach to finding new work – among the most senior executives emerged at the beginning of the 1990s. A number of the leading outplacement companies created units designed to give a more exclusive service for company directors. The Sanders & Sidney unit caters for main board directors or divisional heads in large public limited companies earning gross salaries of more than £100,000 a year. The minimum fee is £20,000.

Executives are given their own offices and secretarial support at the unit. Before arriving they go through a self-appraisal that concentrates on their strengths and achievements. This is followed by a number of counselling sessions and standard outplacement advice on how to compile and present a CV, interview techniques and how to network established contacts.

Chris Wright, who decided to leave BP after 20 years with the company rather than accept a move to Singapore, said: "The mechanical process concentrating on thinking of achievements is important psychologically. I think that what I am going through is actually a luxury because it is a great opportunity to take stock. But it is also desperately important to maintain the rhythm of work."

A package of career counselling for a top executive on, say £150,000 – the average salary among executives passing through the unit – might cost his or her company £25,000.

This figure would be included in the severence terms. Many of those who ask for the service have seen how it helped other individuals who lost their jobs in earlier redundancy programmes.

Elizabeth Fagan, former managing director of Sketchley Retail, now taking a course at the unit, said: "I used outplacement when I had been making people redundant in the past because of organisational changes, and I thought it had been useful.

"It gives a fairly structured approach to finding another position which is no bad thing. When you are actually in employment you are totally focused on the role that you are fulfilling, and not actively trying to promote your career by seeking other openings."

Fagan spent much of her early career with Boots The Chemist before joining Dixons, where she was managing director of SupaSnaps, the Dixons' subsidiary that was later merged with Sketchley Dry Cleaners. At present she is treating the severence as a career watershed and looking for a position outside the retail industry.

About half the executives who go through the unit use it to change their career direction, while the other half go back into the same industry. David Egerton-Smith, a former partner and corporate lawyer at Linklaters & Paines, is looking for something different in his career. "If you have been doing one thing in one industry for a long period of time, you lose sight of yourself and how to market yourself," he said.

This point was underlined by Alan Sanders, now managing director of Golden West Foods. He moved from a period of outplacement into a new career after spending 30 years in the pharmaceuticals industry. He said: "They don't find you a job. You prepare your own marketing plan and the product is you."

Sanders says that the search is helped by a change in attitudes towards redundancy. "Today the concept of redundancy is more acceptable. When I started my management career if anyone said they had been made redundant it was if they had leprosy," he said.

While executives at this level tend to contact headhunters who are expected to handle searches for suitable positions, the experience is not always rewarding.

"You get through the headhunters very quickly," said Sanders. Details of those undergoing outplacement are circulated among headhunting firms. Additionally, executives are encouraged to explore possibilities among contacts that they may have made over the years.

In Sanders' case, his outplacement contacts proved useful when, a few weeks ago, he was looking for a logistics director. Although he advertised he also called Sanders & Sidney, and found that they had the ideal candidate on their books.

The trawling of outplacement firms for executive talent is still not as common as it could be, perhaps because companies do not realise the depth of expertise they can find there. Bell says that finding work is not difficult for these executives, but finding a job which suits them best can take time.

The company stresses the amount of effort needed in the search for a new job. "The more you work at finding your next job, the quicker it will come," said Bell.

● Monks Partnership has carried out a study of European incentives and benefits which highlights differences among European countries. One of the most marked differences is that between state and company pensions.

In Germany, for example, the state pension can be worth up to 50 per cent of final earnings. A company pension plan would be designed, therefore, to lift the total pension in retirement to between 60 and 70 per cent. Other benefits, more easily comparable, include company cars. At director level more than three quarters of posts in 14 countries across Europe are eligible for a company car.

The report could not find a company director in Portugal without a company car. In Belgium, Germany, Austria and UK, the proportion with company cars is between 92 and 95 per cent.

Senior managers in Spain and Denmark fare quite badly for different reasons. The importance of the company car as a status symbol in Spain means that it is reserved primarily for directors. Only a third of senior managers get them in Denmark but this is because its cars are comparatively expensive.

Car values also show a wide variation. A Swiss director's car, for example, is likely to cost about £33,000 while the cost of Greek director's car would be more like £19,000.

The equivalent figure for the director of UK subsidiary company with a turnover of up to £50m is about £21,000.

German directors can expect the most holiday. Nearly 80 per cent of them get more than 30 days holiday a year, compared to 13 per cent of those in the UK and 2 per cent of Danish directors.

Large numbers of Italian (67 per cent) and Swedish (57 per cent) directors also enjoy more than 30 days leave each year. Most UK directors, said Monks, are entitled to between 25 and 29 days of annual leave.

British directors and senior managers head the European league table of mobile telephone users. More than a third of all senior managers in the UK are provided with mobile telephones.

The mobile phone has made the least impact among Swiss management, where only 6 per cent find them necessary. Perhaps they would prefer mobile cuckoo clocks.

Incentives and benefits Europe is available from Monks Partnership, The Mill House, Wendens Ambo, Saffron Walden, Essex CB11 4JX, price £350.

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fund management

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Robert Clow, Derivatives Monitor
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SWEDEN

Renewers still have battles to fight

The prime minister designate can feel justifiably satisfied with the economic recovery he helped to initiate. Yet on nuclear policy, the EU, and the welfare system difficult decisions must still be made, writes Hugh Carnegy

The answer, finally, was Yes: Göran Persson, Sweden's finance minister and prime minister elect, answering questions at a news conference

Ingvar Carlsson (above), Sweden's prime minister, is due to retire next year and will hand over the reins of power in March to Göran Persson, left, who has announced that his first commitment will be to "get back to a welfare policy"

Late in the evening of December 5, Mr Göran Persson, Sweden's finance minister, adjusted his spectacles in his customary manner, squared his considerable shoulders, looked a scrum of eager reporters straight in the eye and said Yes to the question to which he had – until hours before – insisted he would always answer No.

Mr Persson's ultimate assent to an appeal from the ruling Social Democratic party to succeed Mr Ingvar Carlsson as Prime Minister, when the latter retires next year, ended months of uproar within the SDP over who would take over as head of the party that has led Sweden for 54 of the past 63 years.

It also confirmed Mr Persson as the dominant figure in a year – Sweden's first as a member of the European Union – when the country battled through a deep crisis in the public finances to emerge in the autumn in better shape economically than most forecasters had dared to hope several months earlier.

As Mr Persson prepares to take over the reins of power, which – barring surprises – he will do in March, he can take considerable personal satisfaction over the economic recovery. His flat denials over several months that he wanted the premiership were, in retrospect, well short of the truth. But the party almost certainly would never have turned to him had his tough budget programme, with the cuts it has imposed on the SDP's cherished welfare system, not shown the positive results it already has.

However, the challenges facing the minority SDP government remain considerable. Not least, Mr Persson must assert his authority over a party which had wanted Ms Mona Sahlin, the young former deputy prime minister, to succeed Mr Carlsson until she was forced to withdraw by a scandal over her private use of government credit cards.

The recovery, both in the public finances and the economy at large, remains fragile, and needs to be entrenched at a time when signs of a slowdown in the European and US economies are ominous for a country which has relied heavily for growth in the past two years on exports from its phalanx of big international companies.

A looming additional burden, which must be addressed soon, is the promise made after a referendum 15 years ago to scrap the country's 12 nuclear power plants by the year 2010. Nuclear power accounts for half the electricity supply and if the wind-down pledge is honoured, as Mr Persson says it must be, expensive decisions on replacement energy sources must be taken almost immediately.

Difficult choices also lie ahead on Europe. Since voting to join the EU a year ago, the Swedish electorate, always sceptical about membership, has turned hostile to Brussels. Mr Persson, the Riksbank, and probably a majority of industry, want Sweden to join the EU's economic and monetary union from its planned start in 1999 but persuading the nation will be an extremely hard task.

The outstanding achievement of this year has been the turnaround in the economic climate. For months after the Social Democrats returned to power in late 1994, an atmosphere of crisis prevailed. Although an export boom had restored growth after a three-year recession, the depressed domestic economy and a record total unemployment figure (including those on state training schemes) of 13 per cent, left a crippling legacy of a double-digit budget deficit and a state debt approaching 90 per cent of gross domestic product.

Mr Persson produced a succession of budget packages which combined big cuts in public spending and tax increases to reduce the deficit by SKr115bn, or 7.5 per cent of GDP, over three years. At first, Sweden's creditors doubted that the programmes would be sufficient. In March and April, the krona slumped to record low levels, interest rates spiralled, inflation threatened and Sweden was habitually lumped in with the world's high-risk economies.

"I don't think the markets were unfair to us," is Mr Persson's verdict on what was his most difficult period. "Don't forget that a lot of investors had lost a lot of money believing other Swedish finance ministers in the past, so they had reason to be sceptical."

Over the following months, once the measures had been approved by parliament, confidence in the financial markets began to return. At the same time, the economy proved more buoyant than anticipated, with 1995 growth now expected to approach 4 per cent. Together, these factors began to establish the "virtuous circle" the government had striven to achieve.

By December, the krona had strengthened by some 10 per cent, easing inflationary pressures and the burden of the big foreign currency debt; and long term interest rates tumbled, boosting growth prospects. These factors, with the budget programme, helped narrow the deficit more quickly than expected. It is due to be eliminated in 1998 and the debt will be stabilised this year – two years ahead of schedule.

With the immediate crisis apparently overcome, the main worry for most analysts is that complacency may set in. There is little room to relax as GDP growth is set to fall back in 1996 to around 2 per cent. Given the high sensitivity of public finances in Sweden to macro-economic developments, this leaves little margin for safety.

The nuclear issue could also have a strong impact on the public finances. Estimates of replacement costs – the likeliest alternative is gas – range up to SKr350bn. The markets will pay keen attention to a report by a parliamentary commission due on December 18 which is expected to lay out options and costings, and on the political debate that will follow. The attitude of the Social Democrats – and Mr Persson's leadership – is crucial to all these issues. The government is in a minority in parliament, but the fragmentation of the opposition means it is likely to remain comfortably in power through to the 1998 general election.

There is a fierce debate under way within the party between the "renewers" arguing for long term reforms to control the size of the public sector – and the "traditionalists", including many in the trade unions, who want to see the restoration of the full range of welfare benefits cut during the financial crisis.

The "renewers" have accepted that Sweden's famously generous welfare system has outgrown the ability to finance it. Public spending peaked at more than 70 per cent of GDP, by far the highest level in the industrialised world. They believe the share of the private sector in the economy must grow if sustainable growth is to be achieved and unemployment brought down. They also tend to take a pragmatic stance on the nuclear question, saying the 2010 deadline should not be rigidly adhered to.

The thrust of Mr Persson's policies as finance minister have placed him in the renewers' camp but in order to bind the party together – and staunch its heavy losses to the Left and Environment parties in recent months – he is likely to have to adopt a more centrist position.

When he announced his candidacy to succeed Mr Carlsson at a crowded press conference at SDP headquarters in Stockholm, his first commitment was to "get back to a welfare policy". In an interview shortly before his decision, he made clear that his vision for the future was based on maintaining the fundamental elements of Sweden's universal, egalitarian welfare system.

"I will stick to the welfare society as we have built it, but it has to be solidly based," he said.

Intimately bound up with the debate over economic policy is the question of Europe. The government is pressing hard for the issues of employment promotion and environmental policies to be taken up at the EU's intergovernmental conference next year, not least in an effort to make the union more palatable to opinion at home.

The anti-EU left and environment parties have made great inroads – together winning 30 per cent of the vote in elections to the European Parliament in September – with their advocacy of Sweden's need to preserve its independence from the EU in order to pursue traditional welfare economic policies.

Their call is echoed by possibly a majority of SDP supporters. This attitude makes the prospect of pushing through Swedish membership of Emu look questionable, assuming Sweden meets the monetary and fiscal criteria.

Mr Persson is optimistic, arguing that Sweden can fulfil the criteria in time and that opinion can be swung around by improvements which he now anticipates in the domestic economy. "Today, obviously, it is a No, but in a year it can be a Yes, I am convinced of that," he says.

IN THIS SURVEY

II SWEDEN

■ **Sweden and the European Union:** by Christopher Brown-Humes

Many regret 'Yes' vote

Today's negative mood shows that Swedes have reverted to the anti-EU feelings reflected in numerous opinion polls in the run-up to the referendum

Less than a year after joining the European Union, it seems that Swedes are even more Eurosceptic than the British. Many who voted for membership in the November 1994 referendum say they regret their decision while anti-EU parties did spectacularly well in the country's September elections to the European parliament.

The disillusion reflects two things: first, the strong Swedish tradition of independence that means that any perceived threat to national sovereignty or cherished neutrality is viewed warily; second, disappointment that some of the benefits promised by the pro-EU camp have not materialised.

In fact, today's negative mood shows Swedes have only reverted to the anti-EU feelings reflected in numerous opinion polls in the two-year run-up to the referendum. Against this background, the aberration was last November's 53-47 per cent vote in favour of the union - itself hardly an enthusiastic endorsement of membership.

It took the whole weight of the establishment - the mainstream political parties, industry bosses, trade union leaders, and the press - to obtain even this margin of victory. And, almost inevitably perhaps, there has been a backlash.

"People feel they were fooled by the establishment. They were told the EU would be good for their personal finances, and it would happen instantly because interest rates would come down and food prices would fall," says Mr Mats Carlbom, a political reporter with Dagens Nyheter, Sweden's best-selling quality newspaper. Linked to this was the hope that EU membership would help the fight against unemployment, currently running at 12 per cent of the workforce.

The reality was different. While neighbouring Finns saw an 8 per cent fall in food prices after joining the EU, Swedish food prices have stayed the same or even risen slightly this year. At the same time, interest rates remained stubbornly high in the early months of membership - reflecting financial markets concern about the state of Swedish finances - and only began their strong downward trend from mid-year.

Swedes vented their frustration in September when they were asked to elect 22 members to the European parliament. The Environment and Left parties, who led the unsuccessful battle against EU membership, scooped 30.1 per cent of the vote, almost triple their combined total in last year's general election.

Their tally almost equalled the 32 per cent of the vote garnered by the three parties (including the main opposition Conservative party) who took an unequivocally pro-EU line.

Caught in the middle were the ruling Social Democrats. Underscoring its deep internal divisions on Europe, the party presented two lists of candidates - one headed by an anti-EU figure and one by a pro-EU campaigner. The tactic did not prevent electoral disaster; indeed, the party took just 28.1 per cent of the vote, its worst electoral showing since 1911 and well below the 45.3 per cent achieved in the general election a year previously. The outcome means that half of Sweden's representation in Strasbourg is hostile to the union.

Perhaps the clearest indication of discontent with the EU was the fact that only 41.3 per cent of voters bothered to go to the polls in a country where election turn-outs are traditionally high.

Apart from a lack of tangible benefits from EU membership, the effort to stimulate warmer attitudes towards the EU has been hampered by several other factors. One is a feeling that the EU has lower standards in areas which Swedes have always considered important, including the environment, equality and open government. Another is a view that the European Commission is a bureaucratic, undemocratic and wasteful organisation.

It hasn't helped that the Commission has effectively decreed that most Swedish strawberries are too small to qualify as strawberries. Or that drug seizures have gone down since Sweden joined the EU, because customs officers cannot carry out spot checks as readily.

For all that, the anti-EU camp lacks both focus and a clear rallying cause. Whereas farmers have championed the anti-EU campaign in Finland, Swedish farmers have generally seen their lot improve (the difference being that Swedish farming was restructured in the early 1990s while previously-pampered Finnish farmers experienced an overnight "big bang" adjustment to EU prices at the start of this year).

Mr Lars-Erik Lundkvist, a senior official with the Federation of Swedish farmers, says farmers have been irked by increased form-filling and bureaucracy following EU entry, but he expects much of this to be a one-off burden. There have also been disruptions caused by the imposition of a milk quota system.

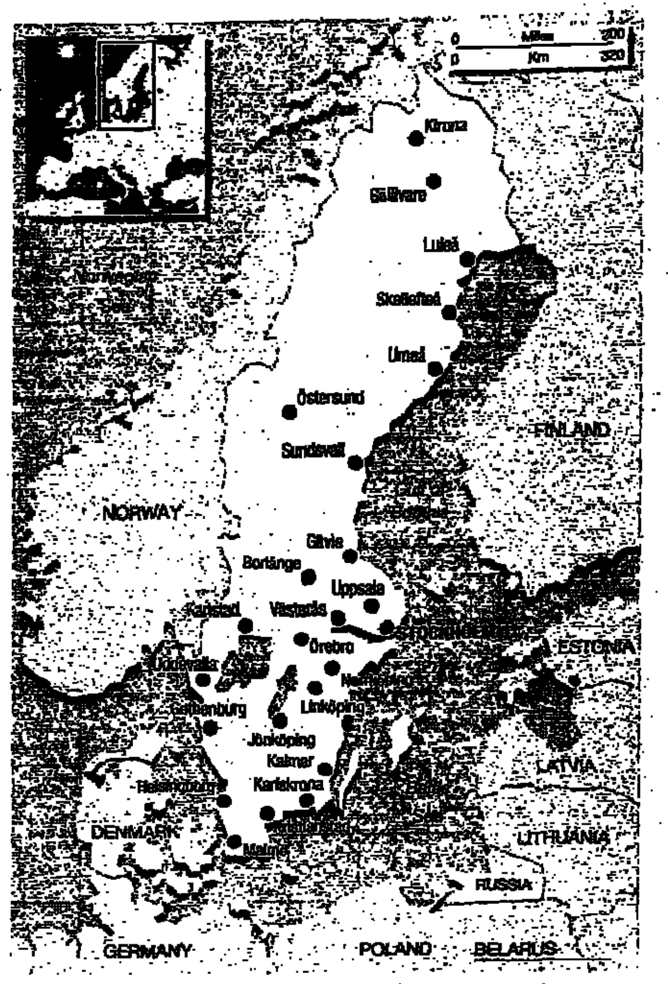
But Mr Lundkvist still believes farmers remain positive to the EU, because gross incomes have risen by about 10 per cent due to increased subsidies, particularly for arable farming.

At the same time, Swedish industry remains strongly pro-EU, insisting that membership has secured markets, increased Swedish influence in policy discussions and brought higher inward investment.

Big debates lie ahead - over the outcome of next year's intergovernmental conference and whether Sweden should join a future economic and monetary union (Emu) - and anti-EU parties have already called for new referendums to endorse these.

The majority of Swedes today are against Emu - but already the establishment is making confident noises that opinion can be won round. It will not be an easy task. And it will get harder if this year's rise in the krona hits company profits hard because a single currency prevents the devaluations that have restored the corporate sector's lost competitiveness so many times in the past.

November 13 1994: EU supporters celebrate their victory *Picture: Reuter*



KEY FACTS

Area		449,964 sq km
Population		8.8 million
Head of state		King Carl XVI Gustaf
Currency		Swedish Krona (SKr)

ECONOMY	1994	1995
Total GDP (SKr bn) [1]	1,516.9	1,627.0
Real GDP growth (%) [2]	2.2	4.9
Components of GDP (%) [2]		
Private Consumption	54.1	54.6
Total investment	14.4	15.3
Government Consumption	27.3	26.0
Exports	36.7	41.3
Imports	-32.5	-34.2
Annual % increase in:		
Consumer prices [3]	2.3	2.9
Producer prices [3]	4.9	10.5
Earnings [4]	4.1	4.2
Ind. production [4]	10.5	12.5
Share prices [5]	5.0	18.0
At end period:		
Discount rate (%) [6]	7.0	7.5
Govt bond yield (%) [6]	10.9	8.8
3 month interbank rate (%) [6]	8.2	8.8
Unemployment rate (%) [7]	7.4	7.9
Trade (SKr bn)		
Current account balance [2]	5.6	20.5
Exports [8]	471.6	471.4
Imports [8]	399.1	381.9
Trade balance [8]	72.5	89.5

Notes: (1) 1995 First half annualised (2) 1995 First half only (3) 1995 Jan-Oct average (4) 1995 Jan-Sept average (5) Percentage increase over 12 months to end Dec 94, end Nov 95 (6) End Dec 94, end Nov 95 (7) Dec 94, Sept 95 (8) Jan-Oct total

Sources: Datastream, EIU

PROFILE Göran Persson, minister of finance

Prime minister-in-waiting

He stood out in a government of modest stature as the minister with the greatest political authority, who anchored the administration through the rigours of a severe financial crisis. For many - not least the financial markets - Göran Persson was the natural choice to succeed Mr Ingvar Carlsson when the prime minister retires in March.

But for weeks before he finally accepted the call from the Social Democratic party, Mr Persson, 46, insisted categorically that he did not want the job. The burly, bluff minister of finance said he wanted to remain in his present post - maintaining all-important stability in the conduct of economic policy.

He also said he did not want to surrender the little personal freedom he preserved for himself and his new wife as finance minister. Close associates pointed out that he did not have a great desire to get involved in international affairs - as prime ministers inevitably have to do.

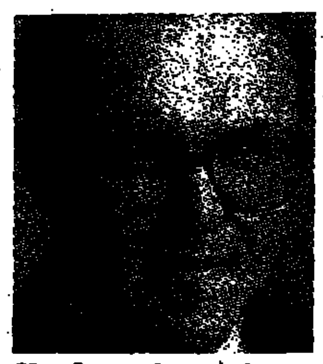
In the end, however, he stepped forward to rescue the party from the chaotic situation that arose when Ms Mona Sahlin, the former deputy premier and first choice as new party leader, was felled by a scandal over her private use of government credit cards.

It is not too cynical to say that the supplicant way in which the party turned to Mr Persson will give him sufficient power to do much as he wants with the job, at least in the short term. But what sort of man is the prime minister-in-waiting?

Over the past year he has enhanced his reputation as a tough politician prepared to battle for his policies against adverseries from all quarters. His role in charge of the economy has certainly been extremely testing.

At one stage, in March and April, Mr Persson was caught between financial markets which were deeply sceptical of his ability to solve the crisis in the public finances and a party rank-and-file extremely agitated over the tough medicine he was administering in order to do so. Mutterings were even heard that the IMF might have to be brought in to sort things out.

"We had a very difficult period in March and April," he said in an interview. "I didn't lose confidence, but I was afraid of losing political power; of losing my ability to raise a majority in parliament." In the event, a spurt of economic growth and a steady increase in market confidence turned the crisis



Göran Persson: for weeks he insisted he did not want the job

around. Despite the rough ride he experienced, Mr Persson says he bears no grudges against "the market" which many Swedes came to deride at the time.

Before he took over as finance minister, he was best known for his role as education minister in the late 1980s. He once shut down the entire schools administration department in order to overcome bureaucratic objections to a reform programme, establishing his heavyweight reputation.

His political interests are firmly based at home. In the first few months of Sweden's EU membership, Mr Persson missed five out of eight finance ministers' meetings, three times because he was on holiday.

He commands respect rather than affection among Sweden's Social Democrats, many of whom are suspicious about his intentions towards the mighty welfare state.

Their worries are probably overblown. Mr Persson's agenda is by no means radically to reshape the SDP's cherished welfare state. In many ways his is an old-fashioned Social Democratic approach: to strive for the maximum welfare system - but to ensure that the public finances are in good enough shape to support it.

"I will stick to the welfare society as we have built it - but it has to be solidly based," he declares.

Hugh Carnegy

■ **Political scene:** by Hugh Carnegy

A rapid slide into disarray

The hiatus was resolved on December 5 after weeks of confusion when Mr Persson reversed his repeated refusal to stand

For a party that just over a year ago returned to power by winning one of its biggest shares of the general election vote - more than 45 per cent - since the second world war, Sweden's Social Democrats underwent a rapid slide into disarray.

The SDP is now desperately hoping that the near-certain succession of Mr Göran Persson as new party leader early next year will draw a line under what has been an awkward year.

Within 12 months of the general election, the SDP had slumped to just over 28 per cent in an election in September to choose Sweden's members of the European Parliament - its worst election result since 1911 and a humiliating blow to the party which has ruled the country for 52 out of the past 63 years. Lately, opinion polls have put SDP support at well under 35 per cent.

Just before the European Parliament election, Mr Ingvar Carlsson, party leader since 1986 and prime minister for seven of the past 10 years, announced he would retire from both posts next March.

His move was intended to clear the way in plenty of time for a new leader to prepare for the next general election in 1998. But the plan went wrong when his anointed successor, Ms Mona Sahlin, was forced in November to withdraw her candidature and resign from the government.

The party leadership's hopes of moving on quickly from the shock of the European election result behind the hitherto very popular Ms Sahlin were suddenly in ruins. "They invested 10 years in grooming Sahlin for the top and now she has been blown away and they don't know what to do," was the gleeful conclusion of a senior strategist in the conservative opposition Moderate party, led by Mr Carl Bildt, the former prime minister.

The hiatus was resolved on December 5 after weeks of confusion when Mr Persson suddenly reversed his repeated and insistent refusal to stand and accepted a unanimous call from the SDP's leadership selection committee to succeed Mr Carlsson.

To placate the powerful women's movement in the party - women account for 50 per cent of the cabinet and SDP members of parliament and badly wanted a female leader - Ms Ingela Thalen, the social affairs minister, was chosen as party secretary. She will act act a bridge within the party between the abrasive Mr Persson and left-wingers upset by his uncompromising attitude to budget cuts necessary to balance the budget.

The tough budgetary cuts the government has had to make over the past year to close the yawning fiscal deficits have sparked a powerful debate in the party between the "renewers" and "traditionalists". The renewers, who include much of the party leadership, accept that the state's role in the economy became unsustainably large and are seeking to trim the welfare state into a slimmer, more efficient beast. The traditionalists, meanwhile, supported by many in the labour unions and the public sector, want to restore the pre-budget crisis status quo.

To make matters more difficult, the party is also deeply split on the issue of the European Union, with a comfortable majority hostile to Sweden's membership just a year after the country voted to join. The combination of Euro-scepticism and disquiet over the budget cuts explained the dismal performance in the Euro-election. It also explains the big gains made recently by the Left party and the Environment party - both strongly anti-EU - which have attracted thousands of disaffected SDP voters.

Fortunately for Mr Persson, as he prepares to confront these problems, the SDP's difficulties are to some extent matched by those of the thoroughly fragmented opposition - leaving the minority government unchallenged despite the recent turmoil it has undergone.

Mr Bildt's Moderates have strengthened since they lost office, reaching more than 27 per cent in recent polls, an improvement of some 5 per cent over the general election. But the Moderates erstwhile non-socialist partners in the 1991-94 coalition government - without whom the party has little prospect of forming a government - are far from a united force.

The Centre party is engaged in a quasi-coalition agreement with the SDP government and its espousal of radical green policies has underlined its divisions with the Moderates. The Liberal party has meanwhile sagged since it took on the weak Ms Maria Leissner as its new leader and the Christian Democrats are languishing below the 4 per cent barrier for entering the Riksdag.

Given the great gulf between the Moderates and the ascendant Left and Environment parties, the prospect of any real threat emerging soon to challenge the SDP government is dim. This gives the ruling party precious time to sort out its policy direction. But Mr Persson faces a tough task in restoring confidence and a sense of purpose to the organisation.

صكذا من الاصل


Stockholm shoppers: interest rates have tumbled — Picture: Tony Andrews

■ **The economy:** by Hugh Carnegy

Markets finally convinced

Growth this year turned out to be much more robust than almost any forecaster had expected – it is set to reach nearly 4 per cent

In perfect step with the country's weather, sentiment about the state of Sweden's deficit-burdened economy suddenly switched from frigid gloom in the winter and early spring, to warm summer optimism. As winter once again closes in, the Social Democratic government is increasingly hopeful that it has left firmly in the past the chilling crisis it inherited in late 1994.

A year ago, the outlook facing the new minority government was grim. Although an export boom was restoring growth after a deep, three-year recession, the public finances were among the most skewed in Europe. The budget deficit in 1994 was more than 10 per cent of gross domestic product and the state debt, at around 80 per cent of GDP, was surging faster than any other in the industrialised world.

The burden of the country's famed womb-to-tomb welfare system – the share of public spending in the economy had risen to an unprecedented 70 per cent – was widely perceived to be in urgent need of radical surgery to cut costs.

In the months up to the end of April, the government produced no less than four budget packages to tackle the crisis. A combination of tax increases and some of the most stringent spending cuts ever made in Sweden were enacted to reduce the budget deficit by SKr115bn by the end of 1998 – equivalent to 7.5 per cent of GDP.

At first, the financial markets, which by now had lumped Sweden in with high-risk European countries such as Italy and Spain, were unconvinced. But since May, the change has been dramatic.

The krona has strengthened sharply, from as low as SKr5.40 to the D-Mark at the end of April to close to SKr4.50 in late November. Interest rates have tumbled, with long-term bond yields falling from 11.5 per cent to comfortably under 9 per cent, narrowing the spread over benchmark German rates to less than 250 basis points from well over 400.

Mr Leif Pagrotsky, chief aide to Mr Göran Persson, the finance minister, says the improvement has been much to do with finally convincing sceptical markets that the government was serious about controlling the deficit. "At last it began to sink in what we had done. There was a realisation that it was concrete and real and not just future plans and empty talk. We feel that has been recognised now."

The government had some vital assistance, too, from the real economy. Growth this year turned out to be much more robust than almost any forecaster had expected – it is set to reach close to 4 per cent compared with estimates earlier in the year as low as 1.5 per cent. This has been of enormous importance because the Swedish public finances, with their very high exposure to generous unemployment benefits and tax receipts, are acutely sensitive to the state of the overall economy.

"The key thing is that growth has been much stronger than expected," says Mr Keld Holm, Scandinavian economist at Lehman Brothers in London. "Had Sweden had 1.5 per cent growth there would not have been the same improvement in the budget deficit and the market would not have reacted as it did."

The combination of all these factors has been the emergence of a "virtuous circle". The deficit is set to fall below 7 per cent of GDP this year and be eliminated in 1998. The debt is now due to stop growing this year – two years ahead of forecasts. The added confidence this has engendered in the financial markets has led to falling interest rates and a stronger krona, which in turn have improved conditions for continued growth, eased inflation pressures and lowered debt costs.

So much improved is the picture that the government is talking confidently of being able to qualify for the planned start of European economic and monetary union in 1999.

There is, however, still one big black spot in this much rosier picture. Unemployment – which as recently as five years ago afflicted less than 5 per cent of the workforce – is at record levels of around 13 per cent. This evokes the crucial question of whether Sweden has achieved conditions for sustained, stable growth – or whether the recent improvement may prove to be a temporary respite. Just as the deficit has responded positively to higher growth, so it is equally vulnerable to a slowdown.

In the medium term, the government is optimistic that growth – although forecast to slow next year – will average more than 2 per cent for the rest of the decade. The export growth of the past two years is set to slow in 1996 – but an improvement in domestic demand this year is expected to restore some balance to what has up to now been a striking disparity between external growth and domestic depression.

But government critics say more structural reforms must be made to downsize the welfare state, liberalise the labour market and ease the overall burden of taxes if unemployment is to be effectively tackled and the 20-year trend of below-average growth in Sweden is to be reversed. Sweden continues to have the biggest public sector share of the economy of any industrialised country and one of the highest tax burdens.

Within the leadership of the Social Democratic party there is a powerful faction – dubbed "the renewers" – who are ready to go some way down the reform road. But they are strongly opposed by the traditionalists in the trade unions and within the public sector who are calling for a restoration of benefits cut this year as soon as the public finances are back in balance.

The renewers are also themselves not proposing any wholesale changes in the welfare system, to which they remain firmly committed.

"No country can have public expenditure at 70 per cent of GDP," says Mr Pagrotsky. "That has to be brought down. We have to reduce our levels of ambition about how generous we can afford to be. But in the end we will still have a rather generous public sector."

The focus instead is on controlling the public finances and inflation, pressing back interest rates and engendering confidence in the management of the economy. "Those things dwarf everything else in determining growth," Mr Pagrotsky declares.

PROFILE

Maintaining its dominance

Ericsson's corporate logo depicts three parallel upward strokes, sitting neatly one on top of the other. It could be a graphic illustrating the group's recent progress: orders up, sales up, profits up.

The success is explained by Ericsson's ability to maintain its dominance of the fast-growing mobile phone business despite intensifying competitive pressures. It has reported an increased order intake every quarter for the past four years. It has also maintained a strong profits momentum, managing to dodge some of the pressures that have hit rivals such as Motorola of the US and Nokia of Finland.

Ericsson is the world's leading supplier of mobile phone infrastructure with a market share of more than 40 per cent, judged by the number of subscribers hooked up to Ericsson systems. It is also the third-largest producer of handsets (after Motorola and Nokia) with an estimated 11 per cent market share.

Partly this dominance reflects the group's global reach – it has sales in 120 countries – and partly it reflects its expertise in switching and radio systems. It is also the only supplier capable of providing equipment for all the mobile phone standards already functioning.

What has helped Ericsson has not just been the growth in market volumes, although these have been spectacular enough with the number of mobile phone users doubling every two years. It is that the growth has been strongest in areas where Ericsson itself is strongest: namely, digital systems.

> In the first nine months, mobile phone business recorded a 50 per cent rise in sales

Mr Lars Ramqvist, Ericsson chief executive, says the European digital standard, GSM, has become the de-facto world standard, after being adopted by 96 countries worldwide. About half of the world's 11.6m GSM subscribers are connected to Ericsson systems, he adds.

By the same token, the group's strength on the digital side has made it less exposed to the US analogue market where Nokia and Motorola have both reported slower growth and margin pressures.

Mobile telephony, housed within the radio division, has gradually displaced public telecommunications as Ericsson's largest business area and engine of profits growth. In the first nine months, mobile phone business recorded a 50 per cent rise in sales and a 75 per cent increase in orders. On the public side, sales growth was a more sluggish 11 per cent.

The discrepancy helps to explain why Ericsson has embarked on a massive corporate reshuffle, moving thousands of staff and a number of factories from the public side over to radio. The aim is to make public telecommunications more competitive – at a time of pricing pressures and unsatisfactory profitability – while quickly ramping up the radio operations to exploit the growth in demand.

For all the progress, there are shadows over the group's performance. One concerns technology. Ericsson has so far steadfastly refused to supply a new digital technology called CDMA, now being widely adopted in the US, arguing that it is still unproven. But it has lost several large US contracts as a consequence.

Another worry relates to the spread of the group's operations. Some analysts say Ericsson should focus its activities more, as this would lift profit margins and cut the group's very high (as a proportion of sales) research and development spending. Ericsson argues that its decision to stay out of CDMA - at least until it is proven - is a sign that it is limiting itself.

A final concern is that the company may find itself outgunned by rivals with deeper pockets. Largely to address this issue, the group successfully raised SKr7.8bn in October through the largest rights issue in Swedish corporate history, enhancing both its muscle and its ability to assist customer financing.


Ramqvist: 'I cannot promise that we will grow at the same pace'

The question, then, is whether Ericsson's spectacular performance of recent years can continue.

Mr Ramqvist tries to be realistic. "No tree grows to heaven. I cannot promise that we will grow at the same pace over the next four years as we have over the last four," he says. A continuous threat to profitability is falling prices, although Ericsson with its top-of-the-range digital handsets is more protected than most. "Prices never go up in this industry," says Mr Ramqvist. "We have to compensate for that by cutting production costs."

Another worry is the stronger krona, given that so much of the group's production is based in Sweden (Ericsson single-handedly accounts for about 10 per cent of Swedish exports). If the currency trend continues, Mr Ramqvist admits, the impact could run to "hundreds of millions" of kronor once current hedging programmes expire.

But Mr Ramqvist still bristles with optimism about the fundamentals of the business, not least because levels of mobile phone penetration in most parts of the world are still below 5 per cent. Ericsson predicts that the number of world cellular subscribers will rise to 350m by the end of the year 2000 from 68m midway through 1995. And he is adamant that Ericsson will defend its market positions, whatever the challenges.

"We have enormous respect for our competitors, but we will not easily be killed," he stresses.

Christopher Brown-Humes

■ **The motor industry:** by Hugh Carnegy

Eventful year for Big Three

Scania and Volvo were singled out by US consultants McKinsey as the world leaders in heavy truck manufacturing

Volvo is in the middle of a move to increase production volumes to 500,000 cars a year *Picture: Tony Andrews*

For Sweden's three big vehicle producers – Volvo, Scania and Saab Automobile – 1995 has been an eventful year in which a buoyant beginning has given way to a less certain outlook for an industry that remains a potent symbol of the country's manufacturing prowess.

The undoubted success stories have been Volvo truck corporation, the world's biggest maker of heavy trucks after Mercedes, and Scania, only the fifth-largest in volume terms, but the market leader in profitability. They have cashed in on a surge in world demand for heavy trucks, coupled with a weak Swedish krona, to post high profits – although a turnaround in both trends in the third quarter has knocked some of the shine off their earnings as the year-end approaches.

For Scania, to date 100 per cent owned by Investor, the Wallenberg family empire's main holding company, the recent profits stream will serve as the launch pad for a planned flotation of up to 75 per cent of the company following the break-up earlier this year into its constituent parts of Saab-Scania.

It is a rather different story in the car industry, however. Volvo and Saab – the latter managed and half-owned since 1989 by General Motors of the US – have both increased sales this year, but they have struggled to sustain profitability at anything like the levels they need for long-term stability.

> The industry remains a potent symbol of the country's manufacturing prowess

In the third quarter, Saab suffered a large loss which once again raised questions about the company's future which it hoped had been dispelled last year when it returned a full-year profit for the first time in six years.

In the truck industry, Scania and Volvo took a bow in September when they were singled out by McKinsey, the US consultants, as the world leaders in heavy truck manufacturing. Intense competition between them and their need to expand beyond their limited home market led to their adoption of industry-leading, modular production techniques, McKinsey said.

Despite a fall in the third quarter, Scania achieved an operating return of 15.3 per cent in the first nine months, when it pushed up pre-tax profits from SKr2.6bn to SKr3.8bn. In the same period, Volvo truck corporation, capitalising on the successful 1993 launch of its new FH range of trucks, returned a 55 per cent increase in operating profits to SKr4bn, giving it a 10.6 per cent operating margin.

Both companies are full of confidence that they can remain in healthy profit even if a recent slowdown in demand in Europe and in South America has signalled the beginning of the next downturn in the industry. Their strategies are different, however.

Volvo, which has re-focused on automotive operations since it backed out of a plan to merge with France's Renault two years ago, is undergoing a heavy programme of investment to boost production capacity to about 60,000 trucks a year outside North America from last year's output level of 42,000.

Volvo produces close to 30,000 trucks in North America. It is also planning a move for the first time into light trucks.

Scania is more cautious. Its main project at present is the launch of the 4 series, unveiled in October and its first new range for 15 years. The 4 series is Scania's answer to the Volvo FH series and a new series due from Mercedes shortly. Scania's position as the premium priced truck in the market depends upon it.

The prospects for the car companies are less certain. Neither Volvo nor Saab have managed to date to shake off the doubts that surrounded their ability to survive in a fast-consolidating car industry in the early 1990s when both were heavy loss-makers – despite a near-revolution in their productivity that has made them able to produce similar numbers of vehicles with greatly reduced workforces.

Prof Christer Karlsson, a specialist in industrial production at the Stockholm School of Economics, believes both still have the potential to thrive, but that time is still needed to bring to fruition their respective strategies to be premium-priced, niche producers.

> Volvo is planning to broaden its model range to a sportier, more stylish, image

Volvo is in the middle of a move to increase production volumes to 500,000 cars a year from present levels of about 360,000 and to broaden its model range and its market appeal to add a sportier, more stylish image to its traditional brand values of safety and reliability.

To compensate for the relatively high production and development costs carried by a small-volume producer, it is forging tactical partnerships with other manufacturers, such as its joint venture in the Netherlands with Mitsubishi, building the smaller models in the Volvo range.

In the meantime, however, profits have been affected by a recent strengthening of the Swedish krona – which hits Volvo hard in the US (the biggest market for both Volvo and Saab) – high development costs and price pressure in slackening markets. Volvo car corporation's operating margin slipped to 1.7 per cent in the third quarter.

Nevertheless, Prof Karlsson thinks Volvo is on the right track. "I am very much in favour of the shift in strategy (since the break with Renault) and I think Volvo can follow it through and fulfil it."

Likewise, he feels Saab can be successful if it develops both a replacement for its ageing, large 9000 model as well as a smaller model to add to its mid-sized 900 model launched in 1993. It can exploit its links to GM both to hold down development and production costs and to maximise its marketing clout, especially in the US – even if these synergies have so far not been fully exploited.

But these strategies require both time and money. Volvo has ample resources to hand; GM has signalled it remains committed to Saab – even if Investor decided to reverse out of its 50 per cent holding.

But a question remains over how long the respective companies can tolerate below-par returns before stability is attained.

PROFILE **Nordbanken**

From problems to profits

Recovery stories do not come much better than that of Nordbanken. Three years ago, it had to be saved from collapse by the state in the middle of Sweden's worst banking crisis in 60 years. Two years ago, it was merged with Gota Bank, the other main casualty of the crisis, to become Sweden's biggest bank by market share. And a year ago it became the country's most profitable bank.

Nordbanken's part-privatisation is an important milestone

This year, a third of the bank has successfully been returned to the private sector, providing the state with its biggest pay-back since the crisis began.

The turnaround has happened more rapidly than anyone dared to expect in 1992 when the bank foundered under the weight of a record-breaking SKr16.6bn loss and seemed destined for a long, slow recovery in Sweden's depressed domestic economy.

But the miraculous revival has also proved controversial. Rivals say Nordbanken would never have recovered so rapidly if it had not been extensively bailed out with taxpayers' money. "Doping" is the word used by Mr Arne Mortensson, Handelsbanken's chief executive, to describe the competitive advantage Nordbanken gained during its sojourn in the state's intensive care unit.

Doping or not, Nordbanken's part-privatisation is an important milestone on the Swedish banking system's journey back to health. The massive credit losses – mainly linked to real estate – that brought the sector to the brink of collapse back in 1992 are now almost back to normal levels.

The improvement has gone far enough for the finance ministry to propose abolishing the state's bank support guarantee next July. The guarantee was provided for the entire system in late 1992 – the peak of the crisis – to reassure creditors and depositors that all commitments would be met.

Nordbanken and Gota Bank were the two biggest casualties of the crisis and together accounted for virtually the entire SKr65bn which the government had to spend to keep the system afloat.

More than SKr60bn worth of Nordbanken's bad loans were hived off into a separate bad bank called "Securum." A similar operation took place at Gota Bank, which spawned its own bad bank unit called "Retriva". Mr Hans Dalborg, Nordbanken's chief executive, admits that "without the Securum solution Nordbanken would not have existed." But he denies that the assistance was over-generous.

He also implies that the bank's recovery would not have been as spectacular without rigorous cost-cutting and its successful integration with Gota Bank. The rationalisation has reduced the number of staff to 6,700 from the 11,500 employed by both Nordbanken and Gota in 1990. Since the merger, the number of the bank's branches has been cut from 400 to 325.

> The bank's financial figures show clearly it is in good shape again

The bank's financial figures show clearly it is in good shape again. Last year, it made an SKr4.8bn operating profit – more than any of its three main rivals. In the first nine months of this year, it stayed ahead of the field with profits of SKr4.55bn and a return on equity of more than 25 per cent. Credit losses were down to SKr966m – or 0.5 per cent of lending – a far cry from the dark days of 1992 when its loan losses reached a staggering SKr19.3bn, or more than 7 per cent of its portfolio.

With credit losses at these virtually normal levels, the main challenge for the bank is to maintain its profits momentum. This is not going to be easy at a time when margins are narrowing and competition is increasing throughout the Swedish banking system. Competition is not just coming from niche banks such as the furniture retailer Ikea, which can offer much better terms to depositors because so many of their transactions are phone-based, but from an increasing number of Nordic banks entering the Swedish market.

Mr Dalborg says the bank's response to the challenges will see it focus more firmly than ever on the domestic market. Its priorities are private customers, public sector organisations, small and medium-sized businesses and a select group of big corporations.

The aim is at least to protect its overall 20 per cent share of the market, while building up its presence in areas where it has been relatively weak. In mortgage lending, for example, it has only a 10 per cent share, compared with its broader 20-23 per cent share of the Swedish private customer market.

"We don't need more customers," says Mr Dalborg. "We have access to 3.5m clients. What we need is to do more business with the clients we have."

One aim is to avoid competing head-on with rivals Skandinaviska Enskilda Banken and Svenska Handelsbanken. These banks are busy building up their operations in other Nordic markets, particularly on the corporate side. Nordbanken, by contrast, has closed all its overseas offices and is only seeking international business that relates directly to existing Swedish clients.

The bank has also decided not to compete aggressively against its two rivals for big corporate business, except in select cases and sectors.

Nordbanken promises there will be no repeat of past mistakes. Apart from tighter credit controls, it is committed to paying out between 30 and 50 per cent of bank profits as dividends to avoid a build-up of excess capital.

The favourable yield, together with the benign downward trend in Swedish interest rates, helped to make the shares attractive when the government offered 34.5 per cent of the bank to domestic and international investors in October.

The sell-off, which raised SKr6.7bn, was the first stage of a programme to fully privatise the bank and an important part of the state's plans to recoup as much as SKr49bn of the SKr65bn overall outlay on the banking system.

After including SKr3.75bn of dividends from Nordbanken, the state has already recovered more than SKr10bn. It has yet to decide how it will go about selling the remaining two thirds of the bank, but is clearly hoping to get at least as much per share as it did this time round.

There will also be substantial proceeds – possibly as much as SKr15bn – from Securum once the unit completes the process of winding up its assets. In other words, Sweden's banking disaster will probably end up costing the taxpayer far less than was originally feared.

Christopher Brown-Humes

■ **Environmental policy:** by Christopher Brown-Humes

Swedes have set tougher targets

In the international arena, Sweden has taken a lead in initiatives ranging from tackling acid rain to cleaning up the Baltic Sea

Sweden is a consistent champion of high environmental standards – whether at home or abroad. It has set tougher targets, enforced more legislation and used taxation more vigorously than most European countries to promote environmental change.

In international issues, where it often adopts a high-profile stance, it has not been afraid to court controversy – as its vigorous criticism of French nuclear testing and Shell's planned sinking of the Brent Spar oil platform have shown.

The determined approach reflects a high level of popular environmental awareness and parliamentary support – going well beyond the confines of a resurgent Environment party – for better standards.

"One of Sweden's main advantages in environmental matters is that we started earlier than most other countries," says Mr Jon Kahn, assistant under-secretary at the Ministry of the Environment. He says an important turning point came in 1972 when Stockholm hosted a UN conference on the environment.

No-one who has followed Sweden's protracted deliberations over whether to build a bridge and tunnel connection to Denmark can doubt the importance the country gives to the environment. The go-ahead only finally came after the government was satisfied that water flows to and from the Baltic would not be impeded by the project.

Similar agonising is already discernible in the debate about whether the country should stick to a deadline to shut its nuclear power plants by 2010.

Economics suggest that a phase-out is ridiculous when most of the plants – which provide half the country's electricity needs – are nowhere near the end of their technical lives. And when renewable sources of energy – such as wind and solar power – have yet to prove viable on a large scale. But the green lobby wants the original timetable adhered to – or at least some plants decommissioned – because of the potential dangers posed by atomic power and waste treatment.

Sweden can boast some of some of Europe's strictest environment standards in areas such as car emissions and sewage treatment. It has also mounted an effort to cut acid rain, not least because the pollution disturbs the delicate ecobalance of its lakes and forests.

Sometimes, however, it fails to meet its own tough targets. It is aiming, for example, to cut nitrogen oxide emissions to the air by 30 per cent between 1980 and 1995, but by last year had only achieved a 13 per cent reduction. Rather than admit failure, some argue that the target was set unrealistically high because of a political wish to satisfy popular opinion.

Sometimes, too, environmental idealism runs headlong into the constraints imposed by Sweden's climate and industry structure. Electricity consumption is high, not least because of long, dark and cold winters and because of the demands of energy-intensive industries such as pulp and paper and steel. Not surprisingly, industry opposes higher energy taxes, because it feels it will damage competitiveness. But it does not always win the argument – as a recent decision to double carbon dioxide taxes has shown.

Industry also sees opportunities in the environmental debate. The Federation of Swedish Industries is working with about 25 of Sweden's leading companies – groups such as Volvo, Stora and ABB – to add an environmental dimension to product development. The hope is that Sweden can ultimately win business by offering consumers greener products.

Nutek, a public sector organisation promoting energy conservation and technology, also actively collaborates with industry on environmental questions.

It recently placed an order for 150 electric cars from Renault of France, claiming that this was the world's single largest electric car order. The move helps to keep Sweden at the forefront of the European drive to commercially introduce electric and hybrid cars.

In the international arena, Sweden has taken a lead in initiatives ranging from acid rain to cleaning up the Baltic Sea. Now that it is in the European Union, it is also forcefully arguing the case for higher environmental standards (there was concern before its EU entry that Sweden might have to dilute its standards to EU levels) and reform of the Common Agricultural Policy to take greater account of the environment.

The high-profile international stance could easily provoke criticism of Sweden's own behaviour if its environmental resolve weakens.

"We cannot act on the international scene if we cannot show that we have done as much as possible at home," says Mr Mats Olsson, deputy director-general of the Swedish Environmental Protection Agency.

There are those who argue Sweden could do more – it has fallen behind on the issue of waste treatment and landfill, for example, although this is not surprising because it does not have the same population or space pressures as other European countries.

There are also those who suggest that Sweden today is less in the forefront of environmental thinking than it used to be. "I think Sweden was relatively better in the 1970s," says Mr Svante Axelsson, an economist with the Swedish Society for Nature Conservation, highlighting the advances made by countries such as Germany, Holland and Denmark since then.

Partly, he suggests, Sweden's relative economic decline, culminating in a deep recession earlier in the decade, has hampered its instinctive environmental idealism.

But on the whole, the country gets high marks for its environmental efforts. Professor Michael Chadwick, director of the Stockholm Environment Institute, says Sweden deserves its reputation for being at the forefront of the environmental crusade. But he says challenges remain, not least persuading Swedes to reduce their consumption when ever-greater demands are being made on the world's resources.

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